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ABSTRACT

A program-based funding model is presented for the California community colleges, using five major categories of programs and services (i.e., instruction, instructional services and libraries, student services, maintenance and operations, and institutional support). Following an executive summary, section I of the report deals with the need for community college finance reform, discussing the deficiencies of the existing funding system, the search for a new approach, and the formation and work of the Task Force on Community College Financing Reform. The principles of community college finance are examined in section II. Section III presents the program-based funding model, covering program categories, definitions of workload measures, funding standards, and determination of allocations. Section IV focuses on the implementation of program-based funding, including material on program improvement, cost of living adjustments, equalization, guaranteed revenues, growth and decline, phasing in implementation, and responsibilities for implementation and change. Section V offers a simulation of the consequences of program-based funding, looking at data sources, the fiscal impact of adopting the proposed standards, and the costs of guaranteed revenue provisions. Finally, section VI reviews the tasks that must be accomplished before implementation would be feasible. Appendices include standards, small college and district adjustment factors, a list of task force members, a glossary of terms, relevant legislation, and minority opinions. (EJV)

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A PROGRAM-BASED FUNDING MODEL FOR THE
CALIFORNIA COMMUNITY COLLEGES

A Report to the Chancellor

Submitted by the
Task Force on Community College Financing

June 1987

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JC 870 389

EXECUTIVE SUMMARY

AB 3409 directed the Chancellor's Office to convene a broad-based, short-term task force on community college financing reform. The legislation charged the Task Force with developing specific recommendations on:

- a new state support allocation mechanism that is sensitive to and measures the full costs associated with the delivery of community college programs and services;
- revenue adjustment components of the mechanism, which would provide for adjustments on an incremental basis for increases or decreases in workload, for equalization, for inflation, and for other legally authorized purposes;
- specific funding methodology, which would differentiate among the major categories for operating community colleges, including, but not limited to, instruction, academic support, student services, institutional support, and plant operations and maintenance;
- specific workload measures applicable for each category and subcategory.

Task Force on Community College Financing

To address the charges of AB3409, the Task Force met regularly from January to June 1987. It reviewed deficiencies in the current system, examined principles of community college funding, and developed a "program-based" funding model for financing California's community colleges. As displayed by Figure 1, this model establishes five major program categories: instruction, instructional services and libraries, student services, maintenance and operations, and institutional support. It defines workload measures for each of these program categories and specifies appropriate funding standards for determining how much money should be allocated to each program category to fund a given level of workload. Based on these workload measures and funding standards, as well as information on unit costs, the model can be used to determine the allocations for each community college district in each of the five program categories. For reference, Figure 1 shows the statewide status in each category in 1984-85 compared to the proposed standards.

This approach to community college financing is consistent with the centralization of finance at the state level that has occurred since Proposition 13 and with the diverse postsecondary character of the community colleges. The model incorporates many of the features now used to finance the California State University (CSU) system and the University of California (UC). It not

only will permit better comparisons with these two systems, but also will further the integration of the community colleges with the remainder of the state's public higher education system.

FIGURE 1
SUPPORT CATEGORIES, WORKLOAD MEASURES, AND STANDARDS

Support Categories	Workload Measure	Proposed Standard(s)	Current Status Percent of Proposed Standards
Instruction (Activity Codes)	Full-Time Equivalent Students (FTES)	Student:Faculty Ratio of 25:1 Faculty Mix: 75% Contract, 25% Hourly	Student:Faculty Ratio of 30:1 Faculty Mix: 62% Contract, 30% Hourly, 7% Overload 1% Classified <i>80.9% of Proposed Standards</i>
Instructional Services and Libraries (Activity Code 6100)	FTES	ALA/ACRL Standards for Libraries with CSU Admin. and Contract Serv. Standards for Media Centers and Learning Centers to be Determined	<i>72.6% of Proposed Standards</i>
Student Services (Activity Codes 6200-6400)	Headcount Enrollment	Standard to be Determined	<i>Not Applicable</i>
Maintenance and Operations (Activity Code 6500)	Gross Square Footage and Acreage	Modified CSU Standards	<i>Not Applicable</i>
Institutional Support (Activity Codes 6000, 6600-6700)	FTES	Modified CSU Standards	<i>88% of Standards</i>

The Task Force concluded that this program-based funding model would be functionally superior to the current system only if it were part of a broad-based effort to reform the financing of the community colleges. Adopting the model simply to redistribute existing resources would be counterproductive and would greatly exacerbate the fiscal dislocations that the colleges have been experiencing in recent years. The program-based funding model includes a set of standards that the Task Force recommends as long-run targets for community college funding, and outlines a plan that would move the colleges towards those targets as resources become available. Implementing program-based funding would require additional resources for administration and data collection at both the district and state level. If program-based funding is to be a step towards adequate and equitable funding of the community colleges, the Task Force believes these costs to be justified. If, on the other hand, there is no commitment on the part of the Legislature and the Governor to increased funding for the community colleges, the disadvantages of changing to a program-based funding model would outweigh the advantages.

Costs of Implementation

To understand better the impact of program-based funding on community colleges, the Task Force simulated the consequences of adopting program-based funding using data for 1984-85 (the most recent year for which complete data were available). The simulations estimated the overall costs of adopting different standards, examined the expenditure patterns that would result from applying these standards in each of the five program categories (how many districts would gain or lose, for example), examined the implications of applying program-based funding under fiscally neutral conditions, and calculated the costs of various hold harmless provisions.

Fully funding the standards proposed in this report for instruction, libraries, and institutional services would have cost \$283 million in 1984-85. If standards had been appropriately defined for *all* program categories, however, the cost would have been higher. If improved standards for student services, instructional services, maintenance and operations, and instructional costs other than teaching were to increase costs by the same average percentage as the other standards, an additional \$130 million would have been needed, for a total of \$413 million. This would have been an additional \$600 per FTES. The Task Force recommends that this increase be accomplished in stages. For example, in instruction, reducing the ratio of full-time equivalent students (FTES) to full-time equivalent faculty (FTEF) would have cost about \$22 million in 1984-85 for each unit reduction (for example, reducing the ratio from 30:1 to 29:1). Increasing the percentage of full-time contract faculty and reducing the percentage of part-time hourly faculty would have cost about \$5.6 million per one percent change (for example, raising the percentage of contract faculty from a statewide average of 62 percent to 63 percent).

The costs of hold harmless—that is, ensuring that no district's expenditures would be less than in 1984-85—depend on the proportion of the standard that is funded. If districts were all funded at the 1984-85 average, the costs of hold harmless would be approximately \$108 million. As the average funding level increases, the number of districts needing to be held harmless decreases, until at the full standard, little or no hold harmless cost remains.

Next Steps

Although the Task Force has made substantial progress in developing a system of program-based funding, there are a number of tasks that must be accomplished before implementation would be feasible. First, appropriate standards must be developed for other instructional services and for student services, and the standards proposed for the other program categories and the procedures for handling small sizes of colleges and districts must be refined. Second, projections

of the impact of program-based funding must be redone using more recent data and, where appropriate, using three-year averages. Simulations and projections for each college and district must also be made. Third, procedures for handling non-credit FTES need more attention, and standards for non-credit activity need to be developed for each program category. Finally, before full implementation the State must develop mechanisms to deal with capital outlay, with districts with unique operations (such as television facilities), and with requirements for remedial classes and other instruction and services for students with special needs.

Summary of Recommendations

Program Categories

- 1) The program-based funding system initially developed for the California Community Colleges should have five major program categories: instruction, instructional services and libraries, student services, institutional support, and maintenance and operations. Subcategories should be established for instruction (credit and non-credit) and for instructional services (libraries and other instructional services). (Page 9)*

Workload Measures

- 2) The workload measure for the instruction, instructional services and libraries, and institutional support categories should be the number of full-time equivalent students (FTES) enrolled at the time of the first census, with full-time equivalent student defined as 15 student contact hours per week (the normal full-time load) for 35 weeks (the number of weeks of instruction per year), which is equivalent to 525 student contact hours. (Page 11)
- 3) The workload measure for student services should be the unduplicated headcount enrollment. (Page 13)
- 4) The workload measures for maintenance and operations should be gross square footage (of district-owned and leased space) and developed and undeveloped acreage. (Page 13)

Funding Standards

- 5) Explicit funding standards should be part of the program-based funding system developed for the community colleges. Where appropriate, these standards should reflect practices established for CSU to serve similar lower division students; when CSU practices are not

*The page number in parentheses following each recommendation refers to the page in the text where the full explanation of the recommendation begins.

comparable, standards should be developed that accurately reflect the mission and circumstances of the community colleges. (Page 14)

- 6) The program-based funding system should initially have the following standards for instruction:
 - a ratio of FTES to FTEF of 25:1 for credit instruction
 - 75 percent FTEF for credit instruction will be contract faculty
 - the statewide average for non-faculty instructional expenditures, with an alternative standard to be developed by the time of full implementation. (Page 14)
- 7) The program-based funding system should initially have the following standards for instructional services and libraries:
 - for libraries, minimum standards as established by the Association of College and Research Libraries Division (a division of the American Library Association) for two-year programs as adjusted and enhanced by CSU library standards for administrative and contract services;
 - for other instructional services, the statewide average expenditure per FTES in the year prior to implementation of program-based funding, with an alternative standard to be developed by the time of full implementation. (Page 15)
- 8) The program-based funding system should initially have the following standard for student services:
 - the statewide average expenditure per student enrolled for student services in the year prior to implementation of program-based funding, with an alternative standard to be developed by the time of full implementation. (Page 16)
- 9) The program-based funding system should initially have the following standard for maintenance and operations:
 - CSU standards modified to reflect community college situations. (Page 16)
- 10) The program-based funding system should initially have the following standard for institutional support:

• CSU standards modified to reflect community college situations. (Page 17)

- 11) Adjustments for necessary small size should be included for each program category. (Page 18)
- 12) Any additional state influence over local expenditures should be limited to 1) offering a fiscal incentive to increase the use of contract faculty for credit instruction up to 75 percent of total credit faculty FTEF and 2) requiring justification for expenditure patterns that are at odds with ranges of spending that reflect typical practice in colleges and districts of similar size and demographic composition. (Page 19)

Program Improvement

- 13) Negotiations should take place annually to determine the percentage of the standards to be funded and the sum of money to be used for program improvement through program-based funding. (Page 21)
- 14) Program improvement funds should be allocated using the "leveling up" approach, which targets new resources to districts that are farthest from the full standard. (Page 22)

Cost of Living Adjustments

- 15) Two statutory COLAs should be established, one for employee compensation (based on the California Personal Income Index) and one for non-personnel costs (based on the Implicit Price Deflator for State and Local Government Purchases of Goods and Services). (Page 23)

Equalization

- 16) Equalization should be measured by comparing the percentages of the full standard reached by districts. Districts are equalized if they are at the same percentage of the standard. Equalization should be achieved simultaneously with program improvement. (Page 23)

Hold Harmless

- 17) Districts operating at or above the negotiated standards adopted for program-based funding should be guaranteed expenditures at least equal to those of the year prior to the implementation of program-based funding. Subsequently, they should operate under the rules of growth and decline established for the funding system. Districts at or above the negotiated standards would receive funds for growth and would receive COLAs based on the

amount of the standard funded, but would not receive any funds for program improvement. (Page 23)

Growth and Decline

- 18) Growth in FTES should be funded at the full percentage of standard approved by the legislature in the year that growth occurs. Funding for decline in enrollment should also diminish at the full percentage of standard, but the impact should be spread over three years. Provision should be made for the chancellor's office to negotiate with the department of finance alternative procedures for growth and decline to reflect special circumstances. (Page 24)
- 19) Allowable growth for a district should depend on the change in the adult population, the local unemployment rate, and the number of high school graduates in the district. Provision should be made for a district to negotiate with the chancellor's office for a different allowable growth rate to reflect unusual circumstances. (Page 25)

Phasing in Implementation

- 20) The present system of funding should continue for 1987-88 unless additional funding is made available. If additional funding is made available, it should be used for program improvement. Implementation of program-based funding should begin in 1988-89, and full implementation should begin in 1989-90, with ongoing monitoring and evaluation for making further refinements. (Page 25)
- 21) Subsequent refinements of program-based funding should continue to assess the accuracy of available data, use three-year moving averages where this would provide a more accurate picture. (Page 27)
- 22) Additional staff should be provided for the Chancellor's Office to implement and administer program-based funding. (Page 28)
- 23) Alternatives for handling credit and non-credit activity should be more closely examined as program-based funding is developed. The desirability of distinctions in areas other than instruction should be considered. (Page 31)

Next Steps

- 24) The Task Force on Community College Financing should continue to meet to address issues related to standards for instruction other than teaching, for instructional services other than libraries, and for student services; to examine the impact of program-based funding using more recent data, including district by district simulations; to determine permissible ranges of expenditure patterns by category; and to develop procedures for handling non-credit instruction. (Page 37)

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I. INTRODUCTION

Prior to 1978, financing for community colleges relied primarily on locally determined property taxes, supplemented by state aid and relatively small amounts of federal assistance. Proposition 13 seriously disrupted this system, eliminating local control over property tax revenues and shifting responsibility for community college funding to the state. Since then, despite several modifications to the funding system, community college financing has suffered from a number of intractable problems. At the state level, policy-making has been fraught with ambiguity and conflict over both the fundamental role of community colleges in the larger higher education system and the appropriate procedures for allocating resources to the colleges. Locally, student enrollments have fluctuated widely. Statewide, enrollment declined precipitously in the early 1980s and is now beginning to rise again. The combination of state-level uncertainty about community college finance and large local enrollment fluctuations has produced much instability and unpredictability in the level of funding available annually to the community colleges. Planning and budgeting have become chaotic, forcing a variety of last-minute staffing and programming decisions that undermine staff and student morale and threaten the basic integrity of the system.

In addition to these difficulties, purchasing power for community colleges has declined significantly during the past decade. Overall, community college revenues in constant dollars declined 15.3 percent between 1976-77 and 1985-86. Although much of this decline reflects a corresponding drop in average daily attendance (ADA) at community colleges, expenditures per ADA declined 5.6 percent in real terms from 1977-78 to 1986-87.¹ In short, during the last decade the community colleges have struggled with major fiscal dislocations and a system of finance that is deficient in several important respects. These deficiencies need brief elaboration.

Deficiencies of the Existing Funding System

The current system for funding community colleges is an artifact of the community colleges' origins in the K-12 public school system. Historically, financing for elementary and secondary education in California has used average daily attendance to determine workload and the corresponding level of funding. Compared to postsecondary education, the operations of elementary and secondary education are relatively homogeneous, and basing funding on the single measure of ADA serves reasonably well. Among elementary and secondary schools, there is general uniformity in goals, mode of instruction, use of full-time faculty, and the types of support services provided. Because almost all students attend full-time, the correlation between ADA and enrollment is high and does not vary greatly among schools and school districts.

¹*Financial Transactions of School Districts, Governor's Budget* (various years).

Postsecondary education, in contrast, is far more diverse. Part-time attendance varies greatly among institutions. Students' reasons for attending differ markedly, and meeting students' educational goals requires much greater diversity in facilities, curriculum, the way different subject matter is taught, the qualifications of faculty, and the types and levels of support services. California recognizes this diversity in the procedures it uses to finance the California State University (CSU) system and the University of California (UC). Funding for CSU and UC employs several workload measures, distinguishes among several different program categories (e.g., instruction, libraries, student services, maintenance and operations, and administration), and establishes standards within each program category to be used to determine the level of funding required to handle a given workload.

Because the community colleges grew out of the elementary and secondary system in California and because finance was largely a local matter prior to Proposition 13, the procedures for financing the community colleges are considerably less sophisticated than those used to fund the rest of postsecondary education in California. With the emergence of the state as the primary source of funding for community colleges, these procedures have become archaic. Basing statewide funding for community colleges on a single workload measure not only fails to recognize the diversity among colleges and districts, but also perpetuates inattention to standards and accountability. Adopting procedures more like those used for CSU or UC would permit better comparisons among California higher education systems and further the integration of the community colleges with the remainder of the state's public higher education system.

Adopting a more sophisticated approach to community college funding consistent with the centralization of finance at the state level and the postsecondary character of community colleges would also help to remedy three other deficiencies in the current system. First, a comprehensive overhaul would stop the annual *ad hoc* tinkering that has plagued the system for nearly 15 years. Frequent, piece-meal changes to the system have contributed greatly to the lack of stability and predictability in funding. Second, a new funding model could include more precise mechanisms for adjusting funding levels for changes in the costs of personnel and other resources. The current method of applying across the board a statutory cost of living adjustment (COLA), based on the Implicit Price Deflator for State and Local Government Purchases, is at best crude recognition of the effects of price changes on the costs of community colleges. Third, a new model could provide a better approach for recognizing how fixed costs affect financing over the longer term. The current system provides two-thirds of the average revenues per ADA for growth and allows districts to retain one-third of the average revenues per ADA for decline. While these ratios may reflect short-

term marginal costs associated with growth and decline, the system does not provide for any long-term adjustments.

The Search For a New Approach

Many believe that a system of differential funding—that is, a system of financial support related to the costs of providing educational programs and services—would be an appropriate way to finance the community colleges. They argue that it would be more suitable for a system of postsecondary education, that it would make revenue more stable and predictable, that it would be more sensitive to the actual costs of the activities of the community colleges, and that it would aid in cost comparisons among districts and with the other postsecondary systems.

Interest in differential funding for the community colleges as an alternative to the current ADA-based funding is not new. The long-term finance plan put forth by the Board of Governors in 1979 proposed differential funding based on a limited number of categories. The California Postsecondary Education Commission also advocated differential funding in 1983 in its principles of financing community colleges. In SB 851, passed in 1983, the Legislature expressed its intent to fund the community colleges in a manner that better reflected the costs of services than the current system and directed the Chancellor to develop a system of differential funding for community college districts. The "Gooder Report," produced as a result of that effort, outlined a plan for implementing differential funding, but pointed out that an improved data system was a prerequisite to actually apportioning funds on a differential basis. More recently, the Commission for the Review of the Master Plan for Higher Education and the Joint Committee for Review of the Master Plan for Higher Education have both recommended differential funding, believing it to have substantial advantages over the current system.

The Task Force on Community College Financing Reform

The Commission for the Review of the Master Plan for Higher Education recommended that the system of financing community colleges be restructured. The Legislature responded to this recommendation by passing AB 3409 (Chapter 1465/86), which directed the Chancellor's Office to convene a broad-based, short-term task force on community college financing reform. The task force was directed to develop specific recommendations which may include, but need not be limited to, the following:

"(1) A new state support allocation mechanism, which is sensitive to and measures the full costs associated with the delivery of community college programs and services.

(2) Revenue adjustment components of the mechanism which would provide for adjustments on an incremental basis for increases or decreases in workload, for equalization, for inflation, and for other legally authorized purposes.

(3) A specific funding methodology which would differentiate among the major categories for operating community colleges, including, but not limited to, instruction, academic support, student services, institutional support, and plant operations and maintenance. The Legislature intends that, within the instruction category, the methodology be based upon mode and cost of instruction, as measured by full-time equivalent credits generated by the instructional activity, by subcategories that would include, but not necessarily be limited to, lecture, seminar, lecture-laboratory, high cost, low cost, independent study, and apprenticeship. The Legislature intends that in addition to these subcategories, adjustments be made for full-time equivalent courses taught by full-time and part-time faculty, and the differences in full-time equivalent courses in small and large districts in the context of economies of scale.

(4) Specific workload measures applicable for each category and subcategory.

(5) Options for providing budgetary incentives for measuring and improving student performance.

(6) The need for community college districts to rely on county superintendents of schools for fiscal services that may be provided through the chancellor's office.

(7) A specific means for preventing major revenue losses to districts during the initial year or years of the new formula.

(8) General provisions and guidelines of a funding mechanism which should be incorporated into statute and more detailed provisions which should be incorporated in rules and regulations of the board of governors."

The Task Force has met regularly since January 1987 to consider these issues. As a first step, the Task Force reviewed the deficiencies of the current system and developed a set of principles of community college funding to use as a guide in designing an alternative. The principles are described in Section II of this report. Using these as a guide, the Task Force developed an alternative funding model and a plan for implementation, which are discussed in Sections III and IV, respectively. Section V presents simulations of the consequences of the proposed funding model, and Section VI addresses the next steps.

In developing the alternative funding model, the Task Force decided not to use the term "differential funding." In the years since differential funding was first proposed, it has had a number of different meanings. To avoid confusion and to distinguish the proposed model from past ones, the Task Force uses the term "program-based funding" to designate its model.

The recommendations presented here represent the views of a substantial majority of the Task Force. The Task Force was not unanimous on all of its recommendations, and considerable disagreement existed on several issues. Some Task Force members have noted areas of disagreement in attachments to this report (See Appendix 6).

The Task Force concluded that a program-based funding model would be functionally superior to the current system only if it were part of a broad-based effort to reform the financing of the community colleges. Adopting the model simply to redistribute existing resources would be counterproductive and would greatly exacerbate the fiscal dislocations that the colleges have been experiencing in recent years. The program-based funding model includes a set of standards that the Task Force recommends as long-run targets for community college funding, and outlines a plan that would move the colleges towards those targets as resources become available. Implementing program-based funding would require additional resources for administration and data collection at both the district and state level. If program-based funding is to be a step towards adequate and equitable funding of the community colleges, the Task Force believes these costs to be justified. If, on the other hand, there is no commitment on the part of the Legislature and the Governor to increased funding for the community colleges, the disadvantages of changing to a program-based funding model would outweigh the advantages.

II. PRINCIPLES OF COMMUNITY COLLEGE FINANCE

Over the past five years, several groups involved with community college issues have put forward statements of principles and/or statements of priorities for community college finance. The Task Force reviewed statements from 1) the Board of Governors (adopted December 1985), 2) the California Postsecondary Education Commission (adopted March 1983), 3) the Commission for the Review of the Master Plan (adopted March 1986), 4) the Joint Legislative Committee on the Master Plan (adopted January 1987), 5) the Association of California Community College Administrators (adopted November 1985 and November 1986), 6) the Faculty Association of California Community Colleges (March 1986), and 7) the Office of the Legislative Analyst (February 1987).

Although there is a good deal of consistency among these statements, there is still no recent, broadly accepted statement of policy principles for community college finance that has been embraced within the community colleges, by the Legislature, and by the Governor. The Task Force believes that a first step in improving existing mechanisms for community college finance should be the development of a clear statement of principles that can be agreed to by all parties and put into statute. The negotiation and adoption of a specific mechanism to implement these principles, along with agreement on funding levels needed to maintain quality, should be consistent with these funding principles.

1. Funding should be adequate to support the mission of the community colleges.

The Joint Committee for Review of the Master Plan for Higher Education has identified three major purposes for the community colleges: 1) providing transfer education of the highest quality for students who wish to pursue a baccalaureate degree; 2) providing quality vocational education; and 3) providing quality programs in transitional education—that is, remedial education and English as a second language—intended to lead to success in college and university work.² The funding mechanism should be sensitive to the diversity of educational programs and support services required to fulfill these missions, and the level of funding should be adequate to provide high quality programs and support services in all areas.

2. The funding system should reflect the postsecondary nature of the community colleges.

The funding mechanism should be appropriate for a system of postsecondary education. Where possible, it should be comparable to the other public postsecondary systems to facilitate

²Joint Committee for Review of the Master Plan for Higher Education, *Final Report: Community College Reform*, January 7, 1987.

state-level policy and fiscal review and Master Plan evaluation.

3. The funding system should be congruent with and supportive of the system of governance.

The funding mechanism should also recognize and support the governance structure of the community colleges, which is characterized by shared State and local responsibility. The funding mechanism should allow for the setting of state policies and priorities, but should also allow local authorities flexibility in implementation and should contain incentives to promote quality and innovation at the local level.

4. The funding system should be sensitive to actual costs.

The funding mechanism should provide program-based funding using a limited number of major instruction and support categories and should relate support for college operations to actual costs in each of these categories. For each of these categories, funding should be based on workload measures and funding standards that are sensitive to changes in the costs of supporting the activity and that provide incentives consistent with stated goals and objectives.

An adequate base should be established for funding the community colleges in accordance with an assessment of the actual costs of providing the programs and services required to fulfill the mission. Provision should be made for offsetting the effects of inflation and changes in workload.

5. Funding should be stable over time.

To avoid disruptions of local program offerings and to allow local administrators to establish policies and expenditure targets with reasonable certainty, the level of revenues should not fluctuate wildly from year to year. It is particularly important that community college districts have adequate time to adjust programs when programmatic needs change or the number of students diminishes.

While funding levels should change with enrollment changes, the method of funding such changes should provide neither a purely fiscal incentive for growth nor excessive penalties for loss of students in the short run.

6. The funding system should provide for equity among comparable colleges and districts.

The funding system should, over time, reduce the differences in funding for colleges and districts that have resulted from past disparities in local wealth, tax support, or previous funding mechanisms.

7. *The funding system should be understandable and easy to communicate and should avoid undue data collection and verification costs.*

The general concepts upon which the funding system is based should be readily understood. Although data collection and verification are necessary components of any funding system, the effort required to comply should not impose a burden that is disproportionate to the benefits gained.

8. *Student fees for state-funded programs should be kept as low as possible, and adequate financial aid should be provided.*

As is the case for the other two public postsecondary segments, increases in student fees should be accompanied by increases in financial aid for students in the community colleges.

III. A PROGRAM-BASED FUNDING MODEL FOR THE CALIFORNIA COMMUNITY COLLEGES

In a program-based funding system, financial support is directly related to workload measures that are tied to the costs of providing educational programs and services. Categories of programs and services are identified (such as instruction, student services). For each program category, workload measures are established and funding standards developed. These workload measures and standards are then used in combination with information on unit costs (such as salaries, benefits, and non-personnel costs) to determine the levels of funding required to deliver services at the specified standards of quality for given workloads in the program categories.

Developing a system of program-based funding requires four major tasks:

- 1) identifying the categories that will be funded separately by the system;
- 2) defining a workload measure for each program category;
- 3) establishing appropriate funding standards for each category;
- 4) determining the allocations for each program category based on the workload measures, funding standards, and unit costs.

In developing recommendations for program-based funding, the Task Force addressed only general apportionments. The Task Force assumes that categorical programs will continue and that capital outlay will continue to be funded outside the apportionment system.

1) Identifying Program Categories

RECOMMENDATION #1: THE PROGRAM-BASED FUNDING SYSTEM INITIALLY DEVELOPED FOR THE CALIFORNIA COMMUNITY COLLEGES SHOULD HAVE FIVE MAJOR PROGRAM CATEGORIES: INSTRUCTION, INSTRUCTIONAL SERVICES AND LIBRARIES, STUDENT SERVICES, INSTITUTIONAL SUPPORT, AND MAINTENANCE AND OPERATIONS. SUBCATEGORIES SHOULD BE ESTABLISHED FOR INSTRUCTION (CREDIT AND NON-CREDIT) AND FOR INSTRUCTIONAL SERVICES (LIBRARIES AND OTHER INSTRUCTIONAL SERVICES).

AB 3409 directed the Task Force to consider, but not be limited to, the following major categories: "instruction, academic support, student services, institutional support, and plant operations and maintenance." It also stated that, within the instruction category, mode of instruction was to be considered.

There are no hard and fast rules for determining the appropriate number of program categories. The decision depends on a number of factors. One factor is whether or not a single workload measure can reasonably be applied throughout the program category. If the workloads for guidance and counseling, financial aid, and other student services can all be reasonably defined in terms of student enrollment, little may be gained by differentiating the operations of student services. If, however, it can reasonably be argued that the workload for guidance and counseling is determined largely by student enrollment, but that the workload for financial aid is determined by the number of students eligible for financial aid, then there might be some benefit to funding the two program components separately.

A second factor is whether or not the same set of standards can be applied throughout the program category. If so, there may be no need to subdivide the category; if not, further differentiation may be desirable. For example, suppose the state wants to establish a lower student/faculty ratio for remedial instruction on the grounds that remediation can be accomplished more effectively with smaller classes. In this case, it may be desirable to distinguish remedial instruction from other instruction.

A third factor is data—their availability, their accuracy, and their comparability across colleges. It may be true, for example, that the workload of financial aid is better measured by the number of students eligible for financial aid than by the number of students enrolled, but if the numbers of students eligible for financial aid are not available from the colleges, or if they are not sufficiently accurate, there is no point in separating financial aid from other student services. Similarly, there is no point in subdividing instructional services if districts do not have comparable data. As we describe in more detail below, data availability and accuracy do pose some constraints on developing a system of program-based funding for the community colleges.

A fourth factor is the amount of complexity that is desired and to what end. There is no technical limit on the degree of differentiation that can be built into a model. Within maintenance and operations, for example, one could attempt to distinguish heating and cooling operations on the reasonable assumption that workloads and costs for these operations vary greatly among colleges. One could make similar arguments about insurance or security. Such fine tuning, however, may make the model comprehensible only to those few individuals willing and able to wade through the long lists of standards and equations that inevitably accompany a complicated system. Equally important, greater complexity adds significantly to the cost of data collection and administration of the funding system.³

³The Gooder report reviewed the experiences of other states with respect to the number of categories used for differential funding and discovered that most states have found a limited number of categories to be preferable to a

The categories and subcategories recommended by the Task Force represent functional areas for which it is feasible to identify workload measures and specify funding standards. They also represent functional areas for which reasonably accurate data are either available now or can be made available in the near future without undue burden.

The Task Force members agreed that funding for instruction should distinguish between credit and non-credit courses because the costs of offering these courses are different. Credit courses cost more, on average, because they tend to be smaller and to be taught by contract faculty, while non-credit courses tend to be larger and are more often taught by hourly faculty than are credit courses. The Task Force considered, but rejected for now, further differentiating instruction by mode—that is, lecture, lecture/lab, and lab. Colleges do not accurately report course activity by mode, and even if this information were reported accurately, the relative costs of the different modes could not be calculated because staff assignments are not reported by course. Should the necessary data be available in the future, the possibility of differentiating instruction by mode should be reconsidered.

The Task Force members also agreed that libraries should be separated from the rest of instructional services (which consists primarily of media centers and learning centers). Even though (as is discussed below) the same workload measure can be applied to both categories, there are well-specified standards for libraries, developed by librarians, but no comparable standards for the rest of instructional services. Further study is needed to develop such standards.

The Task Force discussed subdividing student services on the grounds that different populations of students require different services. At this time, however, the data needed to do this are not available, nor are there yet widely accepted funding standards in these areas. The institutional support category could be subdivided into academic administration and general administration, but the Task Force could find no benefit from the additional complexity. In the maintenance and operations category, existing data will not permit further differentiation.

2) Defining Workload Measures

RECOMMENDATION #2: THE WORKLOAD MEASURE FOR THE INSTRUCTION, INSTRUCTIONAL SERVICES AND LIBRARIES, AND INSTITUTIONAL SUPPORT CATEGORIES SHOULD BE THE

large number. The national trend for states using a differential funding system has been to simplify, rather than to expand, the number of categories used. The advantages of precision are simply outweighed by the burdens of collecting and verifying the necessary data and making the system understandable.

NUMBER OF FULL-TIME EQUIVALENT STUDENTS (FTES) ENROLLED AT THE TIME OF THE FIRST CENSUS, WITH FULL-TIME EQUIVALENT STUDENT DEFINED AS 15 STUDENT CONTACT HOURS PER WEEK (THE NORMAL FULL-TIME LOAD) FOR 35 WEEKS (THE NUMBER OF WEEKS OF INSTRUCTION PER YEAR), WHICH IS EQUIVALENT TO 525 STUDENT CONTACT HOURS.

Under program-based funding, the workload measure for a program category represents the level of activity for which a college is funded. For example, if a workload measure is the number of full-time students, a college receives an allocation per full-time student. Unlike the present system of funding, which measures workload almost exclusively in terms of Average Daily Attendance (ADA), program-based funding recognizes that different workload measures may be appropriate for different categories.

FTES and ADA are both workload measures. The definition of FTES recommended by the Task Force, however, differs from ADA in two important respects. First, it is calculated on the basis of the first census enrollment only, rather than the average of first and second census enrollments as is now done to compute ADA. Second, the definition of FTES does not incorporate the .911 factor by which ADA is reduced for apportionment purposes.

The Task Force believes that FTES is preferable to ADA as a teaching workload measure for several reasons. First, it uses only the first census, which provides a more appropriate indicator of workload for a postsecondary institution than the average of the first and second censuses, which is used now. Realistically, colleges must staff to serve the students enrolled at the time of the first census. Even though enrollment typically drops between the first and second censuses, it is too late to cancel or reorganize classes after the first census. Neither CSU nor UC uses a second measure of enrollment in its workload measure. The second reason FTES is preferable to ADA is that FTES does not include an attendance factor. The Task Force believes that the .911 attendance factor used to adjust ADA is irrelevant and should not be used. Colleges must staff for the number of students enrolled, not the number in attendance on an average day. A final advantage of using FTES is that it avoids the need for a second census, which would reduce the administrative burden.

Total statewide FTES was about 14 percent greater than total statewide ADA in 1984-85.⁴ Thus, average expenditures per FTES are about 14 percent lower than average expenditures per ADA. The recommendation to shift from ADA to FTES to measure workload is a fiscally neutral

⁴While on the average FTES is about 14 percent greater than ADA, the difference varies from district to district, depending on the drop in enrollment between first and second census, which is not the same in all districts. Thus, all districts would not be affected the same way by a shift from using the average of first and second censuses to the use of the first census alone.

recommendation. The Task Force is not advocating that there must be a 14 percent increase in funding through shifting the workload measure from ADA to FTES, but simply that the workload measure be redefined.

RECOMMENDATION #3: THE WORKLOAD MEASURE FOR STUDENT SERVICES SHOULD BE THE UNDUPLICATED HEADCOUNT ENROLLMENT.

Expenses for student services are more directly related to headcount enrollment than to FTES. Whether enrolled for one course per semester or four, a student represents about the same workload for Admissions and Records. Similarly, a half-time student receiving financial aid requires as much of a financial aid officer's time as a full-time student, and two students taking six units require more counseling than one student taking twelve units. Resources for student services, therefore, should be allocated based on the number of students rather than the amount of instructional activity they generate.

RECOMMENDATION #4: THE WORKLOAD MEASURES FOR MAINTENANCE AND OPERATIONS SHOULD BE GROSS SQUARE FOOTAGE (OF DISTRICT-OWNED AND LEASED SPACE) AND DEVELOPED AND UNDEVELOPED ACREAGE.

Maintenance and operations, while somewhat affected by changes in FTES, is much more a function of the size of the physical plant and the grounds, which in the short run will not change if FTES changes. It is therefore more appropriate to allocate resources for maintenance and operations on the basis of facilities and space.

Two measures of the size of the physical plant are assignable square footage and gross square footage, which should be closely related. The Task Force chose gross square footage to be comparable to CSU. It is important to distinguish between developed and undeveloped land, because undeveloped land has minimal costs for maintenance.

Some accommodation needs to be made for the rental and maintenance costs of leased space. Many colleges use a considerable amount of leased space for which they pay not only rent, but also maintenance costs—either as direct costs or indirectly through the rents. To ensure that these costs are provided for, an allowance for FTES generated in leased facilities needs to be included in the general apportionment. One way to do this would be to use the revenue generated for gross square footage to compute an amount per FTES for FTES generated in district-owned facilities and apply a similar amount to FTES generated in leased facilities. To ensure that districts do not shift to the use of leased space simply to generate additional funding, an approval process could be required for districts that increased the proportion of FTES in leased space.

3) Establishing Funding Standards

In the system of program-based funding proposed by the Task Force, funding standards would be set for each category to define what the Task Force believes would represent adequate support for that category. These standards would be benchmarks, agreed to by the Legislature, against which the adequacy of current funding levels could be evaluated. To make such evaluations meaningful, it is important that the standards be expressed not simply as dollar amounts per workload unit, but in terms that can be related to the quality of services provided—such as the ratio of FTES to full-time equivalent faculty (FTEF), or the number of students per counselor. This section discusses what the Task Force believes these standards should be.

RECOMMENDATION #5: EXPLICIT FUNDING STANDARDS SHOULD BE PART OF THE PROGRAM-BASED FUNDING SYSTEM DEVELOPED FOR THE COMMUNITY COLLEGES. WHERE APPROPRIATE, THESE STANDARDS SHOULD REFLECT PRACTICES ESTABLISHED FOR CSU TO SERVE SIMILAR LOWER DIVISION STUDENTS; WHEN CSU PRACTICES ARE NOT COMPARABLE, STANDARDS SHOULD BE DEVELOPED THAT ACCURATELY REFLECT THE MISSION AND CIRCUMSTANCES OF THE COMMUNITY COLLEGES.

While the Task Force believes strongly in the idea of establishing funding standards that represent appropriate levels of service for community colleges, the process of actually choosing standards was hindered by the availability of data. While the Task Force was generally satisfied with the standards for instruction and for libraries, additional work is needed on standards for all the other funding categories. *Standards are recommended for each category in this section, but they should be considered preliminary at this time.*

On a statewide basis, the standards recommended here represent higher levels of service in each category than are now being provided. The Task Force recognizes that the state may not have sufficient resources to fund these standards immediately, but believes that the standards should nevertheless be established as long range goals. Strategies for realizing these standards over time are discussed under implementation issues below.

RECOMMENDATION #6: THE PROGRAM-BASED FUNDING SYSTEM SHOULD INITIALLY HAVE THE FOLLOWING STANDARDS FOR INSTRUCTION:

- A RATIO OF FTES TO FTEF OF 25:1 FOR CREDIT INSTRUCTION
- 75 PERCENT FTEF FOR CREDIT INSTRUCTION WILL BE CONTRACT FACULTY

- THE STATEWIDE AVERAGE FOR NON-FACULTY INSTRUCTIONAL EXPENDITURES WITH AN ALTERNATIVE STANDARD TO BE DEVELOPED BY THE TIME OF FULL IMPLEMENTATION.

To develop the standard for the ratio of FTES to FTEF, the Task Force looked to the CSU standard for lower division, which is 20.5 to 1. Adjusting that standard to maintain the 25 percent higher teaching loads in the community colleges, the Task Force determined the standard of 25 to 1 to be appropriate for the community colleges.⁵ In 1984-85, the statewide ratio of FTES to FTEF for community college credit instruction was 30 to 1. No standard has yet been set for non-credit instruction.

Most colleges use a combination of contract and hourly faculty to teach their courses. Since the statewide average cost of instruction provided by hourly staff is less than 50 percent of the cost of instruction provided by full-time faculty, there is currently a strong fiscal incentive to substitute hourly staff for contract faculty in times of financial hardship. To constrain this strategy, current law requires local community college districts that generate more than 31 percent of their student contact hours with part-time faculty to maintain or lower that percentage. Statewide, approximately 60 percent of all FTEF and approximately two-thirds of credit FTEF were contract in 1984-85. The Task Force believes that a standard of 75 percent contract faculty for credit instruction would ensure that colleges are served by a solid core of permanent faculty and still allow sufficient flexibility in allocating resources.

Other standards for instruction are not recommended at this time, but could be considered at a later date. For example, the Task Force considered funding all faculty at the level of contract faculty to provide additional compensation for part-time faculty. Additional funds would be required to compensate for the added duties of part-time faculty if proposals by the Master Plan Commission and Joint Legislative Committee are adopted.

RECOMMENDATION #7: THE PROGRAM-BASED FUNDING SYSTEM SHOULD INITIALLY HAVE THE FOLLOWING STANDARDS FOR INSTRUCTIONAL SERVICES AND LIBRARIES:

- FOR LIBRARIES, MINIMUM STANDARDS AS ESTABLISHED BY THE ASSOCIATION OF COLLEGE AND RESEARCH LIBRARIES (A DIVISION OF THE AMERICAN LIBRARY ASSOCIATION) FOR TWO-YEAR PROGRAMS AS ADJUSTED AND ENHANCED BY CSU LIBRARY STANDARDS FOR ADMINISTRATIVE AND CONTRACT SERVICES;

⁵Note that a funding standard of 25 to 1 does not mean an average class size of 25. Faculty workloads include committee assignments, curriculum development, and other assigned responsibilities.

- FOR OTHER INSTRUCTIONAL SERVICES, THE STATEWIDE AVERAGE EXPENDITURE PER FTES IN THE YEAR PRIOR TO IMPLEMENTATION OF PROGRAM-BASED FUNDING, WITH AN ALTERNATIVE STANDARD TO BE DEVELOPED BY THE TIME OF FULL IMPLEMENTATION.

The American Library Association, Association of College and Research Libraries (ALA/ACRL) has developed two levels of standards (minimum and good) for community colleges. These standards specify, for different sizes of institutions, the needs for professional and support staff, materials, replacement, administration, and equipment. The formulas for calculating these standards are contained in Appendix 1. The Task Force agreed that the minimum level identified by the ALA/ACRL should be the standard for the community colleges at this time.

Similar standards do not exist for other instructional services, which include mainly media centers and learning centers. There also did not seem to be any good rationale for adopting CSU standards in this area. The Task Force therefore concluded that until an alternative is developed, the standard should be the statewide average expenditure per FTES in the prior year.

RECOMMENDATION #8: THE PROGRAM-BASED FUNDING SYSTEM SHOULD INITIALLY HAVE THE FOLLOWING STANDARD FOR STUDENT SERVICES:

- THE STATEWIDE AVERAGE EXPENDITURE PER STUDENT ENROLLED FOR STUDENT SERVICES IN THE YEAR PRIOR TO IMPLEMENTATION OF PROGRAM-BASED FUNDING, WITH AN ALTERNATIVE STANDARD TO BE DEVELOPED BY THE TIME OF FULL IMPLEMENTATION.

The Task Force believes that the standards for student services should eventually follow those developed for the matriculation model. At the present time, however, the data needed to determine what each district should be allocated for matriculation are not collected and reported.

RECOMMENDATION #9: THE PROGRAM-BASED FUNDING SYSTEM SHOULD INITIALLY HAVE THE FOLLOWING STANDARD FOR MAINTENANCE AND OPERATIONS:

- CSU STANDARDS MODIFIED TO REFLECT COMMUNITY COLLEGE SITUATIONS.

The Task Force believes that the CSU standards for maintenance and operations provide a good model for the community colleges. CSU standards are based on the gross square footage of the buildings and on developed and undeveloped acreage. As in the case of institutional support, the standards need to be modified to reflect multi-campus situations and the requirements of very small colleges and centers.

RECOMMENDATION #10: THE PROGRAM-BASED FUNDING SYSTEM SHOULD INITIALLY HAVE THE FOLLOWING STANDARD FOR INSTITUTIONAL SUPPORT:

- CSU STANDARDS MODIFIED TO REFLECT COMMUNITY COLLEGE SITUATIONS.

The Task Force believes that the administrative standards adopted for CSU provide a useful starting point for developing standards for the community colleges. Figure 1 summarizes the standards described above. Some modifications are necessary because CSU is organized only by college, whereas the community colleges have a number of multi-campus districts and because some districts have very small colleges. In the case of some large multi-campus districts, the CSU model does not generate as much general institutional support as those large districts are currently receiving, while in the case of very small colleges the CSU model generates too much. See Appendix 1 for a description of the standards.

FIGURE 1
SUPPORT CATEGORIES, WORKLOAD MEASURES, AND STANDARDS

Support Categories	Workload Measure	Proposed Standard(s)	Current Status Percent of Proposed Standards
Instruction (Activity Codes)	Full-Time Equivalent Students (FTES)	Student:Faculty Ratio of 25:1 Faculty Mix: 75% Contract, 25% Hourly	Student:Faculty Ratio of 30:1 Faculty Mix: 62% Contract, 30% Hourly, 7% Overload 1% Classified <i>80.9% of Proposed Standards</i>
Instructional Services and Libraries (Activity Code 6100)	FTES	ALA/ACRL Standards for Libraries with CSU Admin. and Contract Serv. Standards Standards for Media Centers and Learning Centers to be Determined	<i>72.6% of Proposed Standards</i>
Student Services (Activity Codes 6200-6400)	Headcount Enrollment	Standard to be Determined	<i>Not Applicable</i>
Maintenance and Operations (Activity Code 6500)	Gross Square Footage and Acreage	Modified CSU Standards	<i>Not Applicable</i>
Institutional Support (Activity Codes 6000, 6600-6700)	FTES	Modified CSU Standards	<i>88% of Standards</i>

Adjustments for Economies and Diseconomies of Scale

RECOMMENDATION #11: ADJUSTMENTS FOR NECESSARY SMALL SIZE SHOULD BE INCLUDED FOR EACH PROGRAM CATEGORY.

Small campuses and small districts are usually unable to operate as efficiently as larger ones. On small campuses, class sizes must often be small because there are not enough students to spread over even a minimal set of course offerings. Additionally, costs per FTES for administration and some aspects of maintenance and operations will be much higher because fixed costs are spread over a very small number of students. Adjustments for small size can be incorporated into each of the categories, although the methods are not always the same. The standards recommended above for the library component of instructional services, for maintenance and operations, and for institutional support all have size adjustments built into them. For the other program categories, a small-size adjustment can be made to the allocation. See Appendix 2 for a discussion of alternative ways of making this adjustment.

The Task Force believes that the efficiencies that can be secured with larger campuses should be encouraged wherever possible. It also believes that where geographic isolation necessitates small size, resources should be adequate to assure a level of quality comparable to other community college campuses.

The Task Force also wishes to acknowledge that certain campuses, especially those located in California's largest urban areas, may face problems that are not adequately addressed by the program-based funding model developed here. If so, it may be desirable to develop a student weighting system for computing FTES. The Task Force, in the limited time available to it, was unable to address these issues, but believes that they should receive attention as program-based funding is further developed.

4) Determining the Allocations

The program-based funding model proposed here uses the program categories, workload measures, and funding standards described above (and summarized in Figure 1) together with data on unit costs to determine the amount of funding for which each district or campus is eligible. How this works can be illustrated quite simply using instruction as an example.

Suppose a district has 1,000,000 student contact hours for credit instruction. Using the definition of an FTES as 525 contact hours, this district's instructional workload would be 1,905 FTES ($1,000,000 \div 525$). Using the 1984-85 staffing ratio of 30 to 1 as a standard, this district

would be entitled to 63.5 FTEF (1,905 + 30). If the district is funded to the 1984-85 standard of 61.98 percent contract faculty using the 1984-85 statewide average salaries and benefits of \$40,771 for contract faculty and \$13,907 for hourly faculty, a total of \$1,605,154 ($.62 \times 63.5 \times 40,771$) would be required for contract faculty salaries and benefits and a total of \$335,576 ($.38 \times 63.5 \times \$13,907$) would be required for salaries and benefits for hourly faculty. Thus the total for salaries and benefits for credit instruction would be \$1,940,730 (or \$1,019 per FTES). Adding another \$320 per FTES for other costs associated with instruction⁶ would bring the total to \$2,550,330 (or \$1,339 per FTES) for instruction.

The amounts the district would be entitled to in the other program categories would be calculated in a similar manner and these amounts summed to obtain an overall total allocation. If the state were funding the community colleges at the full standard, this total would be the amount the district received. It is, however, unlikely that the state will immediately have sufficient resources to fully fund community colleges at the new standards. In Section IV we therefore consider how the program-based funding model might be implemented and districts moved equitably toward these standards.

The intention of the Task Force is that the individual districts be funded according to statewide standards, not local practices. For example, if the standard is a ratio of 25 FTES to 1 FTEF, all districts will be funded to support that ratio. If a district chooses to have a ratio of 22 to 1, it must find the resources from some other category. Similarly, if it chooses to have a ratio of 30 to 1, it may use the additional resources generated for some other purpose.

Incentives and Expenditure Controls

RECOMMENDATION #12: ANY ADDITIONAL STATE INFLUENCE OVER LOCAL EXPENDITURES SHOULD BE LIMITED TO 1) OFFERING A FISCAL INCENTIVE TO INCREASE THE USE OF CONTRACT FACULTY FOR CREDIT INSTRUCTION UP TO 75 PERCENT OF TOTAL CREDIT FACULTY FTEF AND 2) REQUIRING JUSTIFICATION FOR EXPENDITURE PATTERNS THAT ARE AT ODDS WITH RANGES OF SPENDING THAT REFLECT TYPICAL PRACTICE IN COLLEGES AND DISTRICTS OF SIMILAR SIZE AND DEMOGRAPHIC COMPOSITION.

Program-based funding should be used by the state to encourage districts to increase their use of contract faculty for credit instruction up to 75 percent of total credit faculty FTE. Participation would be voluntary. A district that did not want to increase its proportion of contract faculty would

⁶These costs include supplies, materials, support staff, and staff not included in the staff data file—mainly staff who work for a limited period and were not on the payroll at the time the staff data were collected.

not have to do so. If a district did accept the incentive funding to increase its proportion of contract faculty, however, it would be required to meet the specified goals. Districts not meeting those goals would have to return the funds. Districts not participating in this incentive funding program would have their equalization aid adjusted to prevent them from substituting equalization aid for incentive funding.

The Task Force believes that even though a district's allocation is calculated category by category, the district should be permitted to allocate those funds to meet local needs and priorities. To ensure fiscal responsibility, however, districts with spending patterns greatly at odds with other similar districts should be required to justify those patterns.

IV. IMPLEMENTATION OF PROGRAM-BASED FUNDING

The Task Force believes strongly that the primary goals of program-based funding should be program improvement and equalization and that no district should be adversely affected as a result of implementing program-based funding. Program-based funding is, therefore, a means to allocate new resources to community colleges, as the state is able to make such resources available, in a fair and rational fashion. Program-based funding should not be implemented simply to redistribute existing resources among the districts and campuses. Such a strategy would be disruptive and serve no legitimate purpose.

The Task Force considered six important issues related to the implementation of program-based funding 1) program improvement, 2) cost of living adjustments, 3) equalization, 4) hold harmless, 5) growth and decline, and 6) phasing in implementation. Each of these is discussed in turn.

1) Program Improvement

RECOMMENDATION #13: NEGOTIATIONS SHOULD TAKE PLACE ANNUALLY TO DETERMINE THE PERCENTAGE OF THE STANDARDS TO BE FUNDED AND THE SUM OF MONEY TO BE USED FOR PROGRAM IMPROVEMENT THROUGH PROGRAM-BASED FUNDING.

As indicated above, it is unlikely that the state will immediately have sufficient resources to fund fully the community colleges at the new standards. A strategy is therefore needed to implement program-based funding in a way that moves districts equitably towards the new standards as new funds are made available. A further consideration is that, as the new standards will mean substantial increases in the resources of most (although not all) districts, it would be wise to phase in program improvement gradually to ensure that increases in funding can be absorbed efficiently.

To illustrate how program improvement might work, let us assume that it would cost approximately \$2.08 billion in 1984-85 dollars to fund fully the community colleges using the proposed standards. Actual total expenditures in 1984-85 were \$1.68 billion, or 86.2 percent of the standards ($1.68 \div 2.08 = .807$). Funding the community colleges one percentage point closer to the standard—that is, at 81.7 percent of the standard—would cost an additional \$20 million, for a total of \$1.70 billion.

The amount negotiated would, of course, depend upon availability of resources. Negotiations, however, could be structured around what the legislature and the community colleges were seeking to accomplish in the way of program improvement and the priorities they were attempting to establish. One of the major advantages of program-based funding based on explicit standards is that it is possible to compute the cost consequences of trying to achieve specific types of program improvements such as changes in the ratio of FTES to FTEF, the percentage of full-time faculty, improvements in library collections, and so forth. Debates need not be limited simply to how much money is or should be made available to community colleges; rather these debates can concentrate more clearly on what is to be accomplished with new funds.

RECOMMENDATION #14: PROGRAM IMPROVEMENT FUNDS SHOULD BE ALLOCATED USING THE "LEVELING UP" APPROACH, WHICH TARGETS NEW RESOURCES TO DISTRICTS THAT ARE FARTHEST FROM THE FULL STANDARD.

Funds appropriated for program improvement should be allocated in such a way that the district at the lowest percentage of full standard is brought to the level of the second lowest, these two are then brought to the level of the third lowest, and so on until the funds are exhausted. This is a "leveling up" approach to program improvement, which targets new resources to districts that are farthest from full standard.

There are at least two other ways to allocate program improvement funds under program-based funding. First, all districts operating below full standard could be allocated a sum sufficient to increase their revenues by the same percentage over the previous year (we are ignoring inflation and COLAs for the moment). This is the "equal percentage" approach to program improvement.

Second, districts operating below standard could be allocated an equal dollar amount per FTES. This approach achieves some degree of equalization, because a fixed dollar amount will represent a larger percentage increase in districts with lower expenditures per FTES. This is the "equal dollar" approach to program improvement.

Which of the three alternatives is most appropriate depends, in part, on whether equalization is addressed separately or accomplished as part of program improvement. The equal percentage approach achieves no equalization and, therefore, requires a separate instrument for equalization. The equal dollar approach achieves some equalization and could be used on its own or in combination with another instrument to achieve equalization. Leveling up maximizes the narrowing of the range between the highest and lowest spending districts and probably requires no additional equalization instrument.

2) Cost of Living Adjustments (COLAs)

RECOMMENDATION #15: TWO STATUTORY COLAS SHOULD BE ESTABLISHED, ONE FOR EMPLOYEE COMPENSATION (BASED ON THE CALIFORNIA PERSONAL INCOME INDEX) AND ONE FOR NON-PERSONNEL COSTS (BASED ON THE IMPLICIT PRICE DEFLATOR FOR STATE AND LOCAL GOVERNMENT PURCHASES OF GOODS AND SERVICES).

The Task Force believes that COLAs should be placed in statute and that there should be two COLAs—one for employee compensation based on the California Personal Income Index, and one for non-personnel expenses based on the Implicit Price Deflator for State and Local Government Purchases of Goods and Services. The COLAs should be applied to the unit cost variables relevant to standards in each of the functional areas of the program-based funding system. Allocations, therefore, will stay current with changes in the cost of living even if the standards themselves remain fixed. A minority viewpoint on the Task Force was that COLAs should be negotiated annually rather than placed in statute.

3) Equalization

RECOMMENDATION #16: EQUALIZATION SHOULD BE MEASURED BY COMPARING THE PERCENTAGES OF THE FULL STANDARD REACHED BY DISTRICTS. DISTRICTS ARE EQUALIZED IF THEY ARE AT THE SAME PERCENTAGE OF THE STANDARD. EQUALIZATION SHOULD BE ACHIEVED SIMULTANEOUSLY WITH PROGRAM IMPROVEMENT.

Program-based funding will not eliminate the need for equalization, but it will alter the way in which inequality is defined. The present funding system expresses inequality in terms of expenditures per ADA. Districts with expenditures per ADA below the statewide average are candidates for equalization assistance. Under the program-based funding model advocated here, inequality is expressed in terms of relative distance from the overall standard. The distance from the standard is what determines the amount received, not expenditures per FTES.

Just as funds for program improvement and COLAs are negotiated separately, it would be possible to negotiate a separate sum of money to be used solely for equalization. The Task Force, however, prefers that equalization be achieved simultaneously with program improvement.

4) Hold Harmless

RECOMMENDATION #17: DISTRICTS OPERATING AT OR ABOVE THE NEGOTIATED STANDARDS ADOPTED FOR PROGRAM-BASED FUNDING SHOULD BE GUARANTEED REVENUES AT LEAST

EQUAL TO THOSE OF THE YEAR PRIOR TO THE IMPLEMENTATION OF PROGRAM-BASED FUNDING. SUBSEQUENTLY, THEY SHOULD OPERATE UNDER THE RULES OF GROWTH AND DECLINE ESTABLISHED FOR THE FUNDING SYSTEM. DISTRICTS AT OR ABOVE THE NEGOTIATED STANDARDS WOULD RECEIVE FUNDS FOR GROWTH AND WOULD RECEIVE COLAS BASED ON THE AMOUNT OF THE STANDARD FUNDED, BUT WOULD NOT RECEIVE ANY FUNDS FOR PROGRAM IMPROVEMENT.

Present differences in spending among community colleges are the product of a variety of factors that are difficult to untangle—differences prior to 1978 in local wealth and local tax effort, responsibilities for adult education, concentrations of students with special needs, economies of scale, and so on. The state's response to Proposition 13 essentially locked these differences in place. Some of the differences—scale economies, for example—are easily justified. Others—such as the effects of an historically higher local tax effort—are more difficult to rationalize. Program-based funding offers a means for justifying some differences among districts in expenditures per FTES, and one could argue, therefore, that differences not sustained by the model should be gradually eliminated. The model is far from perfect, however, and the economic dislocations caused by “leveling down” higher spending districts may not be worth the benefits, especially if these districts are operating at or below the fully funded standards.

By recommending that districts be held harmless, the Task Force is recommending that program-based funding be applied to the allocation of new funding for community colleges. The program-based funding model should not be used to redistribute the current level of expenditures.

5) Growth and Decline

RECOMMENDATION #18: GROWTH IN FTES SHOULD BE FUNDED AT THE FULL PERCENTAGE OF STANDARD APPROVED BY THE LEGISLATURE IN THE YEAR THAT GROWTH OCCURS. FUNDING FOR DECLINE IN ENROLLMENT SHOULD ALSO DIMINISH AT THE FULL PERCENTAGE OF STANDARD, BUT THE IMPACT SHOULD BE SPREAD OVER THREE YEARS. PROVISION SHOULD BE MADE FOR THE CHANCELLOR'S OFFICE TO NEGOTIATE WITH THE DEPARTMENT OF FINANCE ALTERNATIVE PROCEDURES FOR GROWTH AND DECLINE TO REFLECT SPECIAL CIRCUMSTANCES.

The instability of the present funding system has been one of the most serious fiscal problems confronting the community colleges. The Task Force considered several approaches to handling annual fluctuations in enrollment. The chief issue is the rate at which growth and decline

should be funded: should changes be made in terms of full average cost or at some reduced rate of marginal cost? The consensus was that growth should be funded at the average cost.

Colleges must adjust maintenance and operations, capital outlay, and institutional support to reflect lasting changes in enrollment. In the case of growth, new classrooms must be added, new equipment purchased, and additional support provided. In the case of lasting decline, ideally one would like to encourage the contraction of non-instructional expenditures as well, although there may be practical limits imposed by the nature of the physical plant and other fixed costs that make contraction at full average cost impossible even in the long run.

RECOMMENDATION #19: ALLOWABLE GROWTH FOR A DISTRICT SHOULD DEPEND ON THE CHANGE IN THE ADULT POPULATION, THE LOCAL UNEMPLOYMENT RATE, AND THE NUMBER OF HIGH SCHOOL GRADUATES IN THE DISTRICT. PROVISION SHOULD BE MADE FOR A DISTRICT TO NEGOTIATE WITH THE CHANCELLOR'S OFFICE A DIFFERENT ALLOWABLE GROWTH RATE TO REFLECT UNUSUAL CIRCUMSTANCES.

How much growth should be allowed is an important issue. Currently, a limit is placed on growth based on the growth rate of the adult population. The Office of the Legislative Analyst reported that the change in the adult population is not a significant determinant of community college enrollments, and has recommended that two additional factors be added—the local unemployment rate and the number of high school graduates. The Task Force agreed with this recommendation.

Task Force members were concerned that participation rates sometimes change without changes in any of the above factors. For the present, colleges in this situation can be treated as having "unusual circumstances" to be handled on a case by case basis with the Chancellor's Office, but consideration could be given in the future to incorporating participation rates into the funding system.

6) Phasing in Implementation

RECOMMENDATION #20: THE PRESENT SYSTEM OF FUNDING SHOULD CONTINUE FOR 1987-88 UNLESS ADDITIONAL FUNDING IS MADE AVAILABLE. IF ADDITIONAL FUNDING IS MADE AVAILABLE, IT SHOULD BE USED FOR PROGRAM IMPROVEMENT. IMPLEMENTATION OF PROGRAM-BASED FUNDING SHOULD BEGIN IN 1988-89, AND FULL IMPLEMENTATION SHOULD BEGIN IN 1989-90, WITH ONGOING MONITORING AND EVALUATION FOR MAKING FURTHER REFINEMENTS.

As is evident from the discussion so far, much work remains to be done before program-based funding can be implemented. Section VI below enumerates a number of next steps. Consequently, the Task Force recommends that unless additional funding is available for 1987-88, the present funding system continue for 1987-88 while development of program-based funding continues. If new funding should become available in 1987-88, it should be used for program improvement. In 1988-89, implementation, at least on a partial basis, should begin. At this time, standards may not be fully developed in all areas, but this need not impede implementation as long as hold harmless provisions are in effect. Full implementation should be sought by 1989-90, with ongoing monitoring and evaluation for making further refinements.

7) Responsibilities for Implementation and Change

Implementation of a program-based funding system for the community colleges requires that clear roles and responsibilities be defined for the participants in the governance and finance process. Specifically,

- Who should have responsibility for specifying the funding categories, defining the workload measures, and establishing standards?
- Precisely what will be in statute and in regulations, and what will be negotiated annually?
- How will changes to the funding categories, workload measures, and standards be made? And who will be involved in this process?
- How should accountability be determined?

The Task Force does not wish to make recommendations at this time about who should have these responsibilities, because they are closely tied to other issues of governance that are now being addressed by the Commission for the Review of the Master Plan and that will be debated in the legislature.

V. SIMULATING THE CONSEQUENCES OF PROGRAM-BASED FUNDING

To understand better the impact of program-based funding on the community colleges, the Task Force simulated the consequences of adopting program-based funding using data for 1984-85 (the most recent year for which complete data were available). The simulations estimated the overall costs of adopting different standards, examined the expenditure patterns that would result from applying these standards in each of the five program categories (how many districts would gain or lose, for example), examined the implications of applying program-based funding under fiscally neutral conditions, and calculated the costs of various hold harmless provisions. This section reports the results of this analysis.

Data Sources

RECOMMENDATION #21: SUBSEQUENT REFINEMENTS OF PROGRAM-BASED FUNDING SHOULD CONTINUE TO ASSESS THE ACCURACY OF AVAILABLE DATA AND USE THREE-YEAR MOVING AVERAGES WHERE THIS WOULD PROVIDE A MORE ACCURATE PICTURE.

The simulations relied on information supplied by the Chancellor's Office from the following data files for 1984-85: the Course Activity File, the Student Data File, the Staff Data File, the Expenditure Data File, and the Facilities Inventory File. These data files are adequate for estimating the impact of program-based funding statewide, but they are not sufficiently accurate for us to be confident that the data for any one district are correct. Several problems exist that will need to be corrected before these data can be used to determine district-by-district allocations under program-based funding.

The Course Activity File, which was used to determine credit and non-credit contact hours and student contact hours, does not appear to be completely accurate. The weekly student contact hours reported on the Course Activity File do not square with the ADA reported for apportionment purposes.

The Staff Data File also poses problems for successfully implementing program-based funding. The Staff Data File includes only staff on the payroll during the first census week in the fall. Changes from fall to spring are not reflected. The file also does not include summer staff or staff who teach short courses not in session during census week. Additionally, it is not clear how accurately hourly faculty are reported. Consequently, the accuracy of the ratio of FTES to FTEF is subject to question. For the purposes of our simulations, we assumed that staffing patterns were

the same for spring as for fall. Because of the limitations of the Staff File, we had to exclude summer activity from the simulations.

The Expenditure Data File appears to be accurate but the need to exclude summer activity meant that we had to estimate summer expenditures and subtract them from the total. Summer ADA accounted for about 7 percent of total ADA for 1984-85. On the assumption that districts incur certain fixed costs year-round regardless of summer activity and on the assumption that summer ADA is generally taught by less expensive hourly faculty, we estimated expenditures for the academic year at 96.5 percent of total expenditures in 1984-85.⁷

The Facilities Inventory Data File does not presently have the needed data on developed and undeveloped acreage, which made it impossible to use the CSU standards for maintenance and operations. Data on gross square footage of physical plants do exist, but we were unable to assess their accuracy.

In short, the data presently reported to the Chancellor's Office may not be up to the task of implementing program-based funding, especially if the system relies on information for any one year. Some of the problems may be solved by using three-year moving averages. This procedure would tend to smooth out some of the inaccuracies, provided the same districts do not consistently report faulty data.

RECOMMENDATION #22: ADDITIONAL STAFF SHOULD BE PROVIDED FOR THE CHANCELLOR'S OFFICE TO IMPLEMENT AND ADMINISTER PROGRAM-BASED FUNDING.

Since program-based funding will require new workload measures, additional data will have to be collected, verified, and maintained by the Chancellor's Office. These activities will require additional staff.

The Fiscal Impact of Adopting the Proposed Standards

Instruction

To assess the impact of the proposed standards for instruction, we developed a simple instructional cost model to calculate expenditures per FTES for credit and non-credit instruction.

⁷The adjustment was actually done on a district-by-district basis to accommodate the high degree of variability in the percentage of enrollment accounted for by summer across districts. Specifically, district expenditures were reduced by one-half the percentage of total enrollment accounted for by summer enrollment. In other words, although statewide this amounted to 3.5 percent, some districts were adjusted more, some less, and some not at all.

We did the calculations first using 1984-85 data to establish a base, then compared the costs of the proposed standards to this base.

As depicted by Table 1, California's community colleges reported a total of 363,307,603 weekly student contact hours in 1984-85. Of this total, about 332 million contact hours were credit and 31 million were non-credit (all figures exclude summer). Defining an FTES as 525 student contact hours, we computed credit FTES of 633,095 and non-credit FTES of 58,920. In 1984-85, the ratio of FTES to FTEF was 30.02 for credit and 43.90 for non-credit, requiring FTEF of 21,089 and 1,342 for credit and non-credit, respectively. Approximately 62 percent of credit FTEF were employed as contract, 30 percent as hourly, 7 percent as overload, and 1 percent as classified. Comparable figures for non-credit were 26 percent contract, 72 percent hourly, 1.5 percent overload, and 1 percent classified.

Actual average salaries and benefits for credit FTEF averaged \$40,771 for contract faculty, \$13,907 for hourly, \$16,130 for overload, and \$13,691 for classified. Average salaries for non-credit FTEF were \$32,291 for contract faculty, \$17,552 for hourly, \$19,203 for overload, and \$13,691 for classified. Given the distribution of FTEF by type of contract and average salaries and benefits, we calculated total expenditures on salaries and benefits for credit FTES to be about \$648 million in 1984-85, or \$1,023 per FTES. For non-credit FTES, total expenditures for salaries and benefits were approximately \$29 million, or \$486 per FTES.

In addition to salaries and benefits, community colleges also had expenditures for instruction on such items as classroom aides, departmental classified staff, supplies, and materials. The Expenditure Data File does not report these expenditures separately for credit and non-credit, but the total for credit and non-credit combined was about \$231 million in 1984-85, or \$333 per FTES. To determine whether these non-faculty instructional expenditures differed between credit and non-credit instruction, we computed non-faculty instructional expenditures per FTES only for districts with 5 percent or less non-credit FTES. We found that in these districts, the residual for instruction amounted to \$320 per FTES, slightly less than the average of \$333 per FTES for credit and non-credit combined. This small decrease in other instructional expenditures per FTES for credit, however, has a large impact on non-credit, because the small decrease of \$13 per FTES for 90 percent of total FTES amounts to a much larger amount per FTES when spread over the 10 percent of credit FTES—\$482 per FTES.

In summary, in 1984-85, the community colleges spent \$1,023 per FTES for faculty salaries and benefits for credit instruction and \$320 per FTES for other instruction, for a total of \$1,343 per credit FTES. They spent \$486 per FTES for faculty salaries and benefits for non-credit

TABLE 1
ACTUAL EXPENDITURES FOR INSTRUCTION 1984-85

				TOTAL CONTACT HOURS 363,307,603				
CREDIT CONTACT HOURS 332,374,787					NON-CREDIT CONTACT HOURS 30,932,816			
FTEs 633,095					FTEs 58,920			
FTEs/FTEF RATIO 30.02					FTEs/FTEF RATIO 43.90			
REQUIRED FACULTY FTE 21,089					REQUIRED FACULTY FTE 1,342			
% CONTRACT 61.98%	% HOURLY 29.94%	%OVERLOAD 7.15%	%CLASSIFIED 0.93%		% CONTRACT 25.63%	% HOURLY 72.04%	%OVERLOAD 1.53%	%CLASSIFIED 0.80%
AVG. SALARY & BENEFITS \$40,771	AVG. SALARY & BENEFITS \$13,907	AVG. SALARY & BENEFITS \$16,130	AVG. SALARY & BENEFITS \$13,691		AVG. SALARY & BENEFITS \$32,291	AVG. SALARY & BENEFITS \$17,552	AVG. SALARY & BENEFITS \$19,203	AVG. SALARY & BENEFITS \$13,691
TOTAL SAL & BENEFITS \$532,918,769	TOTAL SAL & BENEFITS \$87,809,869	TOTAL SAL & BENEFITS \$24,321,956	TOTAL SAL & BENEFITS \$2,685,109		TOTAL SAL & BENEFITS \$11,107,741	TOTAL SAL & BENEFITS \$16,970,551	TOTAL SAL & BENEFITS \$394,327	TOTAL SAL & BENEFITS \$146,996
TOTAL CREDIT SALARIES & BENEFITS \$647,735,703		AMOUNT PER FTEs \$1,023			TOTAL NON-CREDIT SALARIES & BENEFITS \$28,619,615		AMOUNT PER FTEs \$486	
OTHER INSTRUCTION \$202,425,795		AMOUNT PER FTEs \$320			OTHER INSTRUCTION \$28,418,886		AMOUNT PER FTEs \$482	
TOTAL CREDIT EXPENDITURES FOR INSTRUCTION		AMOUNT PER FTEs			TOTAL NON-CREDIT EXPENDITURES FOR INSTRUCTION		AMOUNT PER FTEs	
\$850,161,499		\$1,343		\$57,038,501		\$968		
				TOTAL EXPENDITURES FOR INSTRUCTION \$907,200,000				
				PER FTEs \$1,311				

instruction and \$482 per FTES for other instruction, for a total of \$968 per non-credit FTES. Total expenditures for credit and non-credit instruction were \$907,200,000, or \$1,311 per FTES. All of these figures were *actual* expenditures in 1984-85, and are the basis for subsequent comparisons.

RECOMMENDATION #23: ALTERNATIVES FOR HANDLING CREDIT AND NON-CREDIT ACTIVITY SHOULD BE MORE CLOSELY EXAMINED AS PROGRAM-BASED FUNDING IS DEVELOPED. THE DESIRABILITY OF DISTINCTIONS IN AREAS OTHER THAN INSTRUCTION SHOULD BE CONSIDERED.

It is important to note how the model treats credit and non-credit FTES. It computes the amount the colleges actually spent per non-credit FTES, not the amount they received. Thus, the model generates \$968 per non-credit FTES for instruction, plus about \$1,100 per non-credit FTES for non-instructional expenditures, for a total of about \$2,068 per non-credit FTES compared to \$2,443 per credit FTES. The proposed funding model does not specify separate standards for credit and non-credit activity in any program categories other than instruction.

Using 1984-85 as a base, the instructional model can be used to assess the impact of changing the funding standards for instruction. For example, Table 2 shows the fiscal impact of decreasing the ratio of FTES to FTEF for credit instruction from 30:1 to 25:1 (a ratio that would be comparable to that used by CSU, adjusted for differences in teaching load)⁸ and increasing the percentage of contract faculty for credit instruction to the desired standard of 75 percent. Expenditures for faculty salaries and benefits would increase from \$1,023 per FTES to \$1,362 per FTES, which would result in a total additional cost of about \$215 million statewide.

To illustrate the incremental effects of modifying the standards for instruction, Table 3 shows the impact of increasing the percentage of contract faculty by one percentage point (for example, from 62 to 63 percent) or reducing the student:faculty ratio by one (for example, from 30:1 to 29:1). A one percentage point increase in contract faculty leads to a .90 percent change in the costs of instruction statewide, or \$5.5 million. Reducing the student:faculty ratio by one increases total instruction costs by 3.45 percent statewide, or \$22.3 million.

⁸See Appendix 1 for the complete calculation of this estimate.

TABLE 2
SIMULATED EXPENDITURES FOR INSTRUCTION 1984-85:
FTE/FTEF RATIO 25:1 AND 75% FULL-TIME

				TOTAL CONTACT HOURS 363,307,603				
CREDIT CONTACT HOURS 332,374,787					NON-CREDIT CONTACT HOURS 30,932,816			
FTEs 633,095					FTEs 58,920			
FTEs/FTEF RATIO 25.00					FTEs/FTEF RATIO 43.90			
REQUIRED FACULTY FTE 25,324					REQUIRED FACULTY FTE 1,342			
% CONTRACT 75.00%	% HOURLY 25.00%	%OVERLOAD 0.00%	%CLASSIFIED 0.00%		% CONTRACT 25.63%	% HOURLY 72.04%	%OVERLOAD 1.53%	%CLASSIFIED 0.80%
AVG. SALARY & BENEFITS \$40,771	AVG. SALARY & BENEFITS \$13,907	AVG. SALARY & BENEFITS \$16,130	AVG. SALARY & BENEFITS \$13,691		AVG. SALARY & BENEFITS \$32,291	AVG. SALARY & BENEFITS \$17,552	AVG. SALARY & BENEFITS \$19,203	AVG. SALARY & BENEFITS \$13,691
TOTAL SAL & BENEFITS \$774,357,282	TOTAL SAL & BENEFITS \$88,044,498	TOTAL SAL & BENEFITS \$0	TOTAL SAL & BENEFITS \$0		TOTAL SAL & BENEFITS \$11,107,741	TOTAL SAL & BENEFITS \$16,970,551	TOTAL SAL & BENEFITS \$394,327	TOTAL SAL & BENEFITS \$146,996
TOTAL CREDIT SALARIES & BENEFITS \$862,401,781		AMOUNT PER FTES \$1,362			TOTAL NON-CREDIT SALARIES & BENEFITS \$28,619,615		AMOUNT PER FTES \$486	
OTHER INSTRUCTION \$202,425,795		AMOUNT PER FTES \$320			OTHER INSTRUCTION \$28,619,615		AMOUNT PER FTES \$486	
TOTAL CREDIT EXPENDITURES FOR INSTRUCTION		AMOUNT PER FTES			TOTAL NON-CREDIT EXPENDITURES FOR INSTRUCTION		AMOUNT PER FTES	
\$1,064,827,576		\$1,682		\$57,239,230		\$971		
				TOTAL EXPENDITURES FOR INSTRUCTION \$1,122,066,806				
				PER FTES \$1,621				

TABLE 3
IMPACT OF MARGINAL CHANGES
ON INSTRUCTIONAL COSTS

A One Unit Change in:	Leads to:	
	% Change in Instruction Costs	\$ Change in Instruction Costs
% Contract Faculty	0.90%	\$5,565,376
Student:Faculty Ratio	3.45%	\$22,320,320

All Program Categories

Table 4 summarizes the results of fully funding in 1984-85 the proposed standards in all five program categories. As indicated above, expenditures for instruction statewide would increase by

TABLE 4
1984-85 EXPENDITURES VERSUS EXPENDITURES
IF STANDARDS ARE FULLY FUNDED

Alternative	Funding Category	Expenditures	\$ Difference from 84-85	% Difference from 84-85
1984-85 Expenditures:	Instruction	\$908,225,429	\$0	0.00%
	Instruct. Services and Libraries	\$64,577,526	\$0	0.00%
	Student Services	\$165,877,395	\$0	0.00%
	Maintenance and Operations	\$203,590,111	\$0	0.00%
	Institutional Support	\$326,281,204	\$0	0.00%
	Total	\$1,668,551,665	\$0	0.00%
Modeled Expenditures: Expenditures If Standards are Fully Funded	Instruction	\$1,122,558,647	\$214,333,218	23.60%
	Instruct. Services and Libraries	\$88,904,336	\$24,326,810	37.67%
	Student Services	\$165,877,395	N/A	N/A
	Maintenance and Operations	\$203,590,111	N/A	N/A
	Institutional Support	\$370,784,652	\$44,503,448	13.64%
	Total	\$1,951,715,141	\$283,163,476	N/A

about \$215 million, or 24 percent. Expenditures for instructional services and libraries would increase by about \$89 million, or 38 percent. Because the model assumes that the standard for instructional services other than libraries is the statewide average, the increase in expenditures for instructional services and libraries is attributable entirely to adopting the minimum standards proposed by ALA/ACRL (see Appendix 1). Statewide averages were used for both student services and maintenance and operations. Changes in expenditures will occur with the development of standards for these categories. Expenditures for institutional support, which are based on standards similar to those currently in use for CSU, would increase about 14 percent.

Statewide, for the three program categories for which standards have been defined and calculated in this report, fully funding the standards would require \$283 million. When all of the standards have been appropriately defined, however, the cost will be higher. The current levels of support for student services, for instructional services, for maintenance and operations, and for instruction other than teaching are believed by the Task Force to be inadequate. If improved standards for student services, instructional services, maintenance and operations, and instruction other than teaching were to increase costs by the same average percentage as the other standards, an additional \$130 million, or a total of \$413 million would be needed.

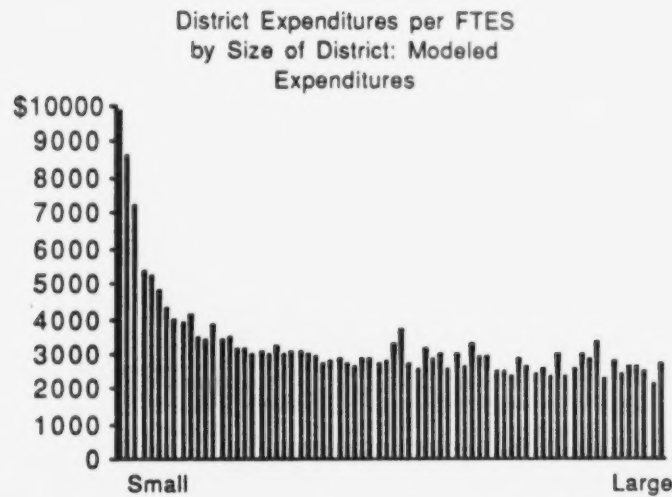
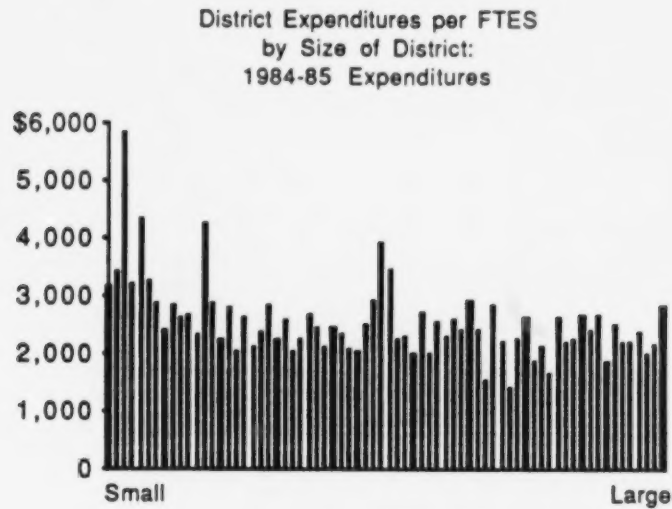
Small Size Adjustment

Figure 2 displays the cumulative effects making small college adjustments by category. The upper graph shows the distribution of actual 1984-85 expenditures per FTES by size of district. While there is some tendency for expenditures per FTES to decline with size of district, the overall pattern is somewhat random. The lower graph shows the impact of including the size adjustment factor. The distribution is much smoother, with spikes in some of the larger districts caused by the presence of a small campus in a multi-campus district. The curve is very steep at the far left of the graph, suggesting that the standards may be too generous with very small districts. Overcompensating small districts may occur because the standards transferred from CSU and the library standards provide too great a level of support for the two or three smallest districts. It should be noted, however, that while the allocations per FTES generated by the alternatives are almost certainly too high in these two or three districts, they have little impact on state totals because the number of FTES relative to the state as a whole is very small. Appendix 2 shows the effects of the size adjustments by category.

The Costs of Hold Harmless

Our estimates of the costs of holding districts harmless are rough, because data for individual districts were not always accurate, but the statewide estimates are probably accurate within plus or minus 10 percent. As noted above, fully funding the proposed standards would require approximately \$283 million. Protecting districts now spending in excess of these standards would

FIGURE 2 SMALL SCHOOL ADJUSTMENT FACTORS



require an additional \$19 million, raising the total cost to \$302 million. Table 5 shows the costs of hold harmless for funding at various percentages of the standards. If the standards were funded at 86 percent (that is, at the 1984-85 level), the costs of hold harmless would be \$108 million.

TABLE 5
HOLD HARMLESS IMPLICATIONS OF FUNDING THE
MODEL AT A PERCENTAGE OF STANDARDS

If the Standards Are Funded At:	Total Expenditures Would Be:	The Difference From 1984-85 Would Be:	The Costs of Hold Harmless Would Be:
100.00%	\$1,951,895,484	\$283,343,819	\$18,554,385
96.50%	\$1,880,706,894	\$212,155,229	\$34,259,737
93.00%	\$1,809,518,304	\$140,966,639	\$51,676,690
89.50%	\$1,738,329,714	\$69,778,049	\$75,158,637
86.00%	\$1,668,551,665	\$0	\$108,015,270

VI. NEXT STEPS

Although the Task Force has made substantial progress in developing a system of program-based funding, there are a number of tasks that must be accomplished before implementation would be feasible:

1) Appropriate standards must be developed for instructional services other than libraries and for student services. Standards for student services should incorporate matriculation. Additionally, the standards proposed for the other program categories must be refined, with particular attention to maintenance and operations. Adjustments in the procedures for handling small colleges and districts are also needed. Simulations and projections for each college and district must be made. Permissible ranges of expenditure patterns in each program category must be determined.

2) Projections of the impact of program-based funding must be redone to include more recent data and, where one year's data is not likely to be adequately representative, to include data based on three-year running averages. For the projections included in this report, the Course Activity File was used to compute FTES because when we started the analysis we expected to need FTES by mode of instruction. Since mode of instruction is not now included in the model, future projections need not rely on the Course Activity File for computing FTES. Instead, they can use the more accurate data on student contact hours available from the data files currently used for calculating apportionment ADA.

3) Procedures for handling non-credit FTES need more attention. Standards for non-credit activity need to be developed for libraries, other instructional services, and student services as well as instruction. As long as hold harmless provisions are in force, what districts presently spend on non-credit activity will not be affected by program-based funding, but a procedure for handling growth and decline in non-credit FTES must be developed.

RECOMMENDATION #24: THE TASK FORCE ON COMMUNITY COLLEGE FINANCING SHOULD CONTINUE TO MEET TO ADDRESS ISSUES RELATED TO STANDARDS FOR INSTRUCTION OTHER THAN TEACHING, FOR INSTRUCTIONAL SERVICES OTHER THAN LIBRARIES, AND FOR STUDENT SERVICES; TO EXAMINE THE IMPACT OF PROGRAM-BASED FUNDING USING MORE RECENT DATA, INCLUDING DISTRICT BY DISTRICT SIMULATIONS; TO DETERMINE PERMISSIBLE RANGES OF EXPENDITURE PATTERNS BY CATEGORY; AND TO DEVELOP PROCEDURES FOR HANDLING NON-CREDIT INSTRUCTION.

In addition to the immediate tasks described above, there are some additional tasks that need attention before full implementation of program-based funding:

1) As currently conceived, program-based funding applies only to current expenses for education; it does not provide support for capital outlay. How capital outlay will be funded requires attention.

2) Some districts have unique operations that are not reflected in any of the standards for program-based funding. Three districts, for example, operate large television facilities. The state's role in funding such operations needs closer examination.

3) More analysis is needed on how well program-based funding addresses the requirements for remedial classes and other instruction and services for students with special needs. As presently conceived, program-based funding adopts average standards for FTES/FTEF ratios and student services. These statewide averages do not adequately recognize that the concentrations of students with special needs varies greatly among districts. A system that computes weighted FTES may be desirable.

APPENDIX 1 STANDARDS

Instruction (Activity Codes 0100-5900)

In developing the standard ratio of 25 FTES to 1 FTEF, the Task Force turned to the CSU lower division staffing level. The CSU currently funds one faculty position for each 17.8 FTES; at the lower division level, this ratio is closer to 20.5 to 1. CSU faculty, however, have lighter teaching loads than community college faculty because of their research responsibilities, thereby raising the effective student/faculty ratio by a factor of 25 percent. (Community college faculty teach an average of five courses per term, while CSU faculty teach four.) The lower division staffing level was therefore raised by a factor of approximately 25 percent, for an FTES to FTEF ratio of 25 to 1.

The Task Force selected 75 percent contract faculty and 25 percent hourly faculty as the standard for faculty composition. This ratio provides the colleges adequate flexibility to meet the demands of changing enrollment patterns, while promoting stability in program offerings and faculty staffing.

The proposed funding model specifies a student:faculty ratio of 25 to 1 and a 75 percent contract, 25 percent hourly faculty mix. The model produces a statewide amount per FTES based on the number of faculty generated by total student contact hours on the credit side and on the non-credit side. This amount per FTES is then used to generate college allocations for instruction. The formula for generating college allocations for instruction is:

$$\text{College Allocation} = \text{CFTE}_i \times \$\text{STAV}_c + \text{NCFTES}_i \times \$\text{STAV}_{nc}$$

where: CFTE_i = credit FTES in college i ,

NCFTES_i = non-credit FTES in college i ,

$\$\text{STAV}_c$ = statewide average expenditures per credit FTES, and

$\$\text{STAV}_{nc}$ = statewide average expenditures per non-credit FTES.

This allocation is then adjusted by the small college factor described in Appendix 2.

Instructional Services and Libraries (Activity Code 6100)

The Association of College and Research Libraries, a division of the American Library Association, has developed two levels of national standards (minimum and good) for university and research libraries, college libraries, and community college libraries. The community college library standards were modified by the Learning Resources Association of California Community Colleges (LRACCC) to meet the needs of the California colleges. Although the ALA/ACRL developed both "minimum" and "good" standards, the Task Force examined only the minimum levels. These were then adapted and enhanced by inclusion of CSU library standards for administrative and contractual services.

The standards set by the ALA/ACRL include a media component that does not neatly match the line-item expenditures in the Fiscal Data File. Under instructional services (Activity Code 6100) in the Fiscal Data file are libraries, learning centers, and media centers. The Task Force was unable to identify adequate standards for either the media or learning center components of the instructional services category, and was therefore unable to specify the fraction of expenditures represented by the media component of the library standards relative to the line-items in the Fiscal Data file. Therefore the media components of the library standards were eliminated from the model, and both media centers and learning centers were modeled as if funded at the statewide average per FTES.

Table 1-1 shows the staffing and materials standards that were used in developing the libraries component of the model:

Table 1-1: ALA/ACRL Minimum Standards

College Size FTES	Type of Staff		Materials	
	Professional	Support	Periodicals	Printed Matter
< 1,000	2.0	3.0	200	30,000
1,001-3,000	2.5	3.5	300	40,000
3,001-5,000	3.5	6.5	500	60,000
5,001-7,000	6.0	10.5	700	80,000
Each Add'l 1K	0.5	1.0	5	6,000

The replacement rate for printed matter was set at 3 percent (although the ALA/ACRL recommends a 5 percent rate of replacement) with an average replacement cost of \$31 per volume. Magazines must be renewed annually at an average cost of \$57. Professional staff were calculated to have an annual salary of \$39,408 per FTE, and support staff an average salary of \$18,807 per FTE.

The model was calculated on a per college basis and compared to 1984-85 allocations for libraries; however, allocations for colleges in multi-campus districts were first aggregated to the district level and then compared with 1984-85 expenditures. To calculate the per college allocation, the following formula was used:

College Allocation = (# professionals x salary) + (# support staff x salary) + (# periodicals x \$57) + [(# books x replacement rate) x \$31]

+ Administrative and Fixed Costs: \$16,975

+ Per Student Allocation: \$1.50 x FTES

+ Book Binding: [(FTES x 0.008) + \$1,900] x \$15.672

+ Technical Processing Costs: \$4.20 x (# volumes x replacement rate)

+ Contractual Services (On-line Bibliographic Utility, Automated Library Systems, and On-line Data Bases/Indexes): \$55,500.

To avoid discontinuities in college allocations in the intersections between size groupings (say between 1,000 FTES and 1,001), a college receives a marginal complement of staff for each additional FTES; hence the college is allocated the full 2.5 professional staff only when FTES reaches 3,000.

The media and learning center components of the instructional services category were calculated using the statewide average allocation per FTES. The total state allocation for media and learning centers in 1984-85, \$28,860,650, was divided by the total number of FTES, 692,014, for an average allocation per FTES of \$41.70. The allocation for each college was the product of the number of FTES and \$41.70, adjusted by the small school factor. (See Appendix 2 for the small school adjustments.) College allocations in multi-college districts were aggregated to the district level for comparison with 1984-85 expenditure information.

Student Services (Activity Codes 6200-6400)

The student services category includes three components: admissions and records, financial aid, and other student services. These were treated as one in the formulation of the model. The Task Force decided that, given the absence of adequate standards, the student services category should be funded at the statewide average per student enrolled for modeling purposes. The Task Force rejected the CSU standards as an appropriate model for the community colleges because of

the differences in the types of student services needed. The total statewide allocation for student services in 1984-85 was \$165,877,395; the per student allocation was \$141.57. The allocation for each college was the product of the number of students enrolled in the Fall term at the college and the statewide average allocation per student, adjusted for the small college factor described in Appendix 2. College allocations in multi-college districts were aggregated to the district level for comparison with 1984-85 expenditure information.

Maintenance and Operations (Activity Code 6500)

The Task Force examined the maintenance and operations standards from the CSU as one possible model for the community colleges. However, these standards are very detailed, and require data on acreage that are not collected by the Chancellor's Office at this time. Without these data, the CSU model could not be appropriately adapted to the situation of the community colleges. The Task Force therefore agreed to rely on the statewide average expenditure per gross square foot as the allocation mechanism for modeling purposes, although, ultimately, the CSU standards would be preferable. Total state expenditures on maintenance and operations in 1984-85 were \$203,590,111; the per gross square foot allocation was \$4.66. The per college allocation was the product of the per gross square foot allocation times the number of gross square feet in the college. College allocations in multi-college districts were then aggregated to the district level for comparison with 1984-85 expenditure information.

Institutional Support (Activity Codes 6000, 6600-6700)

The Task Force agreed to adopt the CSU standards for funding institutional support. This category includes academic administration, planning and policy making, and general administrative support services; since the CSU system has directly analogous operations, adapting appropriate CSU functions to fit the community colleges was relatively straightforward. However, the CSU model is minutely specified in its staffing provisions. To fit the community college staffing taxonomy, the CSU model equations had to be aggregated. Despite this aggregation, seven equations are necessary to generate the appropriate number of staff per college. Table 1-2 shows the basic and marginal complement of staff generated by the model. Like the library model, the marginal schedule has been smoothed out so that there are no discontinuities in the allocation of staff due to small changes in FTES. The number of positions generated by the model take into consideration economies of scale.

The institutional support model functions the same way as the libraries model. Staff positions are generated based on the number of FTES in the college. These staff positions are then multiplied

Table 1-2
CSU Standards Modified for Community College Institutional Support Model

Type of Staff	Size of College (FTES)	Basic Complement (FTE)	Marginal Complement (FTE)
Executive/Administrative	<= 1,000	5.5	
	1,001-5,000	5.5	$[(FTES-1,000) \times 0.0005]$
	> 5,000	7.5	$[(FTES-5,000) \times 0.0002]$
Deans	<= 5000	4.5	
	> 5000	4.5	$[(FTES-5000) \times 0.001]$
Associate Deans/Dept. Chairs*		4.8	$[FTEF/(FTES/FTEF)] \times 0.02747$
Academic Planners	<= 4,500	0.5	
	> 4,500	0.5	$[(FTES-4500) \times 0.0001]$
Professional/Non-Faculty	<1,400	6	
	1,400-5,000	6	$[(FTES-1,400) \times 0.0005] + [59.9766 \times \log(FTES)-193.0667] \times 0.06^{**}$
	5,000-10,000	8	$[(FTES-5,000) \times 0.0008] + [59.9766 \times \log(FTES)-193.0667] \times 0.06$
	10,000-15,000	12	$[(FTES-10,000) \times 0.0002] + [59.9766 \times \log(FTES)-193.0667] \times 0.06$
	>15,000	13	$[59.9766 \times \log(FTES)-193.0667] \times 0.06$
Technical/Crafts	<1,750	14	
	>1,750	14	$[59.9766 \times \log(FTES)-193.0667] \times 0.4244^{***}$
Clerical	<= 1,000	17	$(Deans + Assoc. Deans/Dept. Chair + Acad. Plan) \times 0.22$
	1,001-10,000	17	$[(FTES-10,000) \times 0.0034445]$ $+ (Deans + Assoc. Deans/Dept. Chair + Acad. Plan) \times 0.22$
	> 10,000	24	$[59.9766 \times \log(FTES)-193.0667] \times 0.51$ $+ (Deans + Assoc. Deans/Dept. Chair + Acad. Plan) \times 0.22^{****}$

* For quarter system colleges, the basic complement is multiplied by 1.25. There are ten quarter system colleges.

** For quarter system colleges, the regression equation is $[60.3097 \times \log(FTES)-190.7989] \times .0472$.

*** For quarter system colleges, the regression equation is $[60.3097 \times \log(FTES)-190.7989] \times 0.4415$.

**** For quarter system colleges, the regression equation is $[60.3097 \times \log(FTES)-190.7989] \times 0.5176$.

by the appropriate salary and summed over all staff categories, and a fixed amount per college plus a per FTES amount is added in. Salaries were set at the statewide average per category and were treated as variables in the model. The following table shows the salary levels, fixed appropriation, and per FTES amounts:

Executive/Administrator:	\$61,751	Clerical:	\$23,288
Professional/Non-Faculty:	\$45,461	Fixed Appropriation/College:	\$29,875
Technical/Craft:	\$23,288	Per FTES:	\$ 22.36

The following equation was used to determine college allocations:

$$\text{College Allocation} = (\# \text{ Exec./Admin.} \times \text{Salary}) + (\# \text{ Prof./Non-Fac.} \times \text{Salary}) + (\# \text{ Tech./Craft/Clerical} \times \text{Salary}) + \text{Fixed Appropriation} + (\text{FTES} \times \$ \text{ per FTES}).$$

APPENDIX 2

SMALL COLLEGE AND DISTRICT ADJUSTMENT FACTORS

The Task Force examined several small college and district adjustment factors for the support categories that did not have size factors built into their standards. Three possibilities were considered. The first was to aggregate the separate allocations generated by the five program categories and then adjust only the district total. This is the simplest way to adjust for size. Another version of this approach would be to adjust the allocation for each college separately, then aggregate to obtain the district allocations. This college-level version accommodates the needs of small colleges within large districts.

A second way to adjust for size is to apply different adjustment factors for single and multi-college districts. The rationale for this approach is that small colleges within large districts are able to benefit from scale economies in district-level purchasing and payroll, and hence do not need the same factor adjustment as small, single college districts. A higher adjustment factor can be applied to small, single college districts. This second approach differentiates between small colleges in different situations, and thereby prevents large districts with a number of small colleges from unduly benefitting from the adjustment mechanism.

The third way to adjust for size is the one adopted by the Task Force. A small college adjustment is applied to each program category separately, then the college allocations are aggregated to obtain the district allocations. Adjusting each category separately to account for economies of scale is the most complex approach, but it is also the most appropriate if there are different scale economies in the different program categories, which appears to be the case in the community colleges.

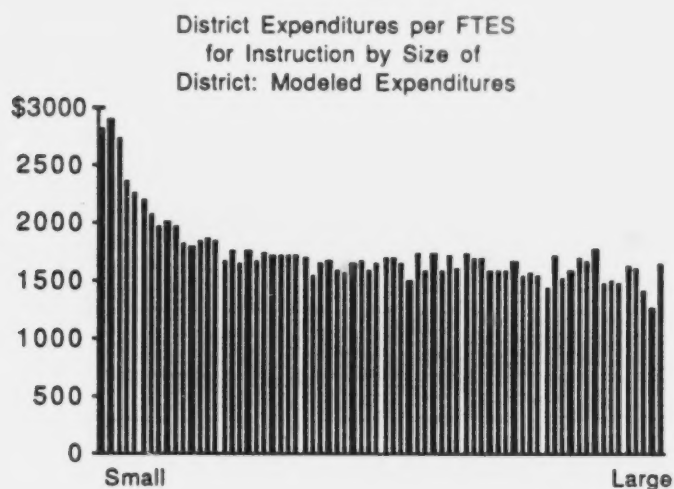
Adjustment Factors by Program Category

In each category the funding standards were used to generate an amount per FTES for each college. The small size adjustments were then applied to these amounts.

Figure 2-1 shows the distribution of district expenditures per FTES for instruction using the proposed standards for instruction. While the curve is generally smooth, there are two variables causing the fluctuations in expenditures per FTES. One is the cumulative effect of the small college factor in multi-campus districts: districts with more than one campus benefit from the small size adjustment for each school. The other is the differences in the percentage of FTES in non-credit courses: since non-credit FTES are compensated at a lower rate than credit FTES, a larger fraction

of non-credit students relative to the total number of students will result in lower expenditures per FTES.

Figure 2-1



The small college adjustment applied to instruction had only two factors:

$$\text{FTES} \leq 667 = 1.75 \times \text{STAV}_{\text{ins}}, \text{ and}$$

$$\text{FTES} > 667 = 0.91 \times \text{STAV}_{\text{ins}}$$

where: STAV_{ins} = the statewide average expenditure for instruction.

These factors are cumulative, so that there are no "cliffs" in the reimbursement schedule when a district exceeds the small college cutoff by a small number of FTES. As a district increases in size, a smaller fraction of its total FTES is reimbursed at the higher small college rate, thereby effectively reducing the allocation per FTES in schools large enough to realize economies of scale.

Figure 2-2

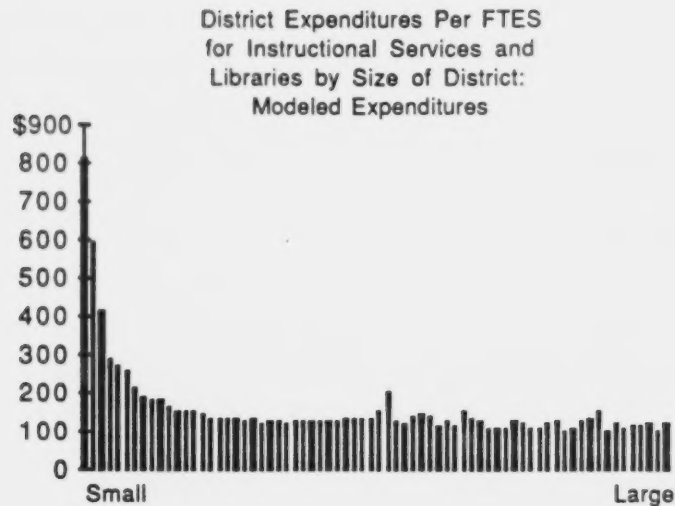


Figure 2-2 illustrates district expenditures per FTES for instructional services and libraries. The curve falls very steeply over the first several districts due to the large initial complement of staff generated by the library standards. The library standards are described in Appendix 1. These standards were adjusted to prevent large discontinuities at the breaks between size categories. For example, a college receives an initial complement of 2 FTE professional staff just for opening its doors; once the college exceeds 1,000 FTES, it receives a marginal complement of .00025 FTE professional staff for each student over 1,000 so that it has a complement of 2.5 FTE professional staff at 3,000 FTES. The other incremental adjustments are made in the same way.

Media centers and learning centers are funded at the statewide average and adjusted in the same fashion as the Instruction category. Total 1984-85 expenditures for media and learning centers were divided by the number of FTES statewide, yielding an amount per FTES. Total expenditures were then held constant while the small school factors were adjusted to reward small colleges more generously. The specific factors used in this category are:

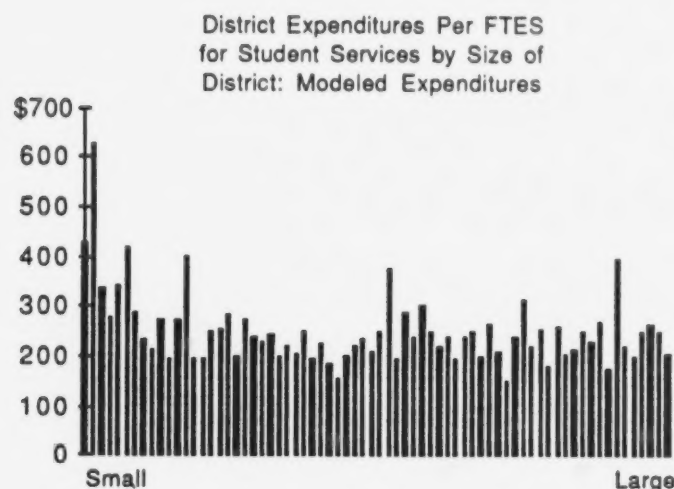
$$\text{FTES} \leq 667 = 1.70 \times \text{STAV}_{\text{isv}}, \text{ and}$$

$$\text{FTES} > 667 = 0.87 \times \text{STAV}_{\text{isv}}$$

where: STAV_{isv} = statewide average expenditures per FTES for instructional services (excluding libraries).

Figure 2-3 shows the district expenditures per FTES for student services. Although the smallest districts generally appear to spend more than average per FTES, the curve is uneven. This is because the workload measure for student services is based on headcount enrollment rather than FTES, and the ratio of headcount enrollment to FTES varies considerably across community college districts.

Figure 2-3



It is important to note that because the student services category uses a different workload measure, a single small college or district adjustment on the aggregated district allocation might not adequately capture different scale effects of the separate program categories. The differential impact of different workload measures should therefore be considered in the formulation of the small college or district adjustment mechanism.

Student services allocations are based on the statewide average expenditures per student enrolled, and are calculated and adjusted in precisely the same way as instruction category and the non-library component of the instructional services category. The small college adjustment factor is:

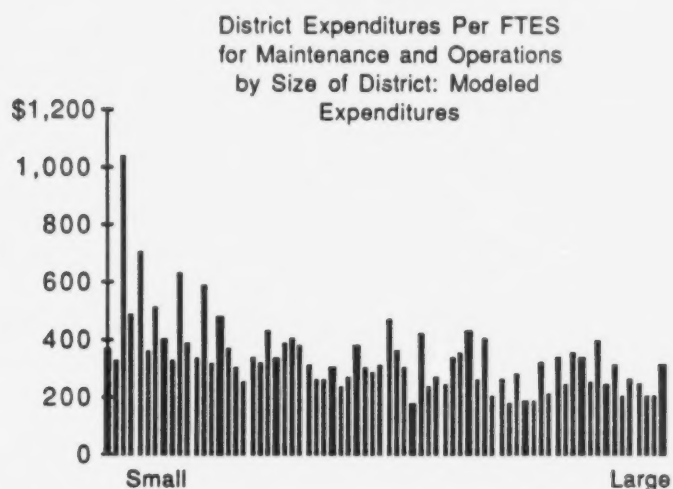
$$\text{Headcount Enrollment} \leq 1,000 = 1.75 \times \text{STAV}_{\text{stsv}}, \text{ and}$$

$$\text{Headcount Enrollment} > 1,000 = 0.92 \times \text{STAV}_{\text{stsv}}$$

where: $\text{STAV}_{\text{stsv}}$ = statewide average expenditure per student enrolled.

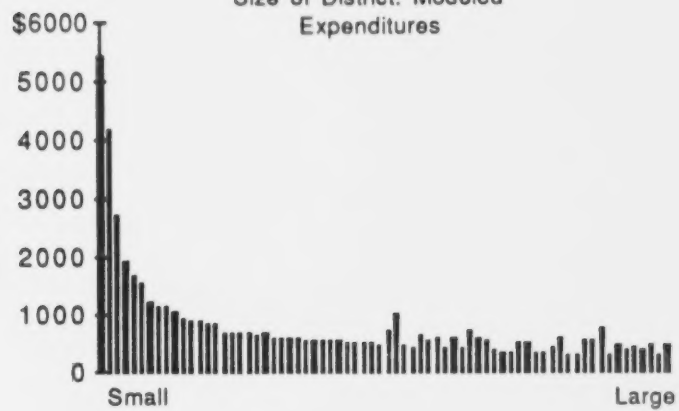
Figure 2-4 shows expenditures per FTES for maintenance and operations. The unevenness of the distribution is caused by the use of gross square footage as the workload measure. No adjustment was made to accommodate the diseconomies of scale in small schools. There are two reasons for not making explicit adjustments. First, small schools typically have a larger number of square feet per student than larger schools and so are compensated at a higher rate per student than larger schools. Second, the Task Force was unable to determine the number of square feet necessary to distinguish a "small" college from a "large" college.

Figure 2-4



Finally, Figure 2-5 shows the pattern of expenditures per FTES by district for institutional support. The steepness of the curve suggests that the small college adjustment implied by the formulas shown in Appendix 1 are too generous. These factors should be adjusted to apply specifically to the community colleges.

**District Expenditures Per FTES
for Institutional Support by
Size of District: Modeled
Expenditures**



APPENDIX 3

MEMBERS OF THE AB3409 TASK FORCE ON COMMUNITY COLLEGE FINANCE REFORM

Ms. Del M. Anderson
Vice President
Skyline College

Mr. Gregg T. Atkins
Coordinator of Library Services
College of San Mateo

Dr. Michael Brailoff
Instructor
College of Marin

Mr. David Brown
Trustee
Los Rios Community College District

Ms. Judy Day
Budget Analyst
State Department of Finance

Mr. Jerome Evans
Consultant
Commission for the Review of the
Master Plan for Higher Education

Mr. Joe Freitas
Acting Vice Chancellor for Fiscal Affairs
Chancellor's Office of the California
Community Colleges

Ms. Karen Grosz
Instructor
Santa Monica College

Mr. Hilary Hsu
Chancellor
San Francisco Community
College District

Mr. Ed Keith
Instructor
Citrus College

Mr. Patrick McCallum
Executive Director
Faculty Association of the
California Community Colleges

Mr. Robert Miyashiro
Budget Analyst
Legislative Analyst's Office

Mr. Joseph Newmyer
Vice Chancellor, Finance and Facilities
North Orange County Community
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Mr. Jose Robledo
Director, Student Financial Services
Los Angeles Community College
District

Mr. F. Arnold Schuler
Deputy State Controller
State Controller's Office

Dr. Larry Toy
Task Force Vice Chair
Instructor
Chabot College

Dr. Tom Van Groningen
Task Force Vice Chair
Chancellor
Yosemite Community College District

Ms. Jane Wellman
Task Force Chair
Postsecondary Education Specialist
California Postsecondary Education
Commission

Ms. Roslyn R. Elms
Director, Health Services
California Postsecondary Education
Commission (Alternate)

Task Force Staff: MPR Associates, Inc.
E. Gareth Hoachlander
Susan P. Choy
John E. Tuma

APPENDIX 4

GLOSSARY OF TERMS

ADA (*Average Daily Attendance*). ADA is the workload measure currently used by the State for funding the community colleges. ADA is calculated by summing the number of weekly student contact hours generated by students enrolled in term-length courses at the time of the first and second censuses, dividing by two (to get the average census enrollment), adding in weekly student contact hours generated in positive attendance courses, and dividing by 525. This number is then multiplied by 0.911 to obtain total ADA. This ADA figure is then the basis for each district's basic state apportionment.

Assignable Square Feet. The number of square feet of space assignable to classroom, laboratory, office, or other usable space.

Contract Faculty. Faculty who have teaching assignments and are paid on an annual basis. Contract faculty can have either regular (permanent) or temporary teaching assignments.

Developed and Undeveloped Acreage. Recommended as workload measures for the maintenance and operations program area. Developed acreage is the number of acres that have been improved by the addition of buildings or the maintenance of grounds. Undeveloped acreage refers to land that is unimproved.

FTEF (*Full-Time Equivalent Faculty*). FTEF is calculated by summing the number of weekly faculty contact hours (WFCH)—the number of hours an instructor teaches during an average week—generated over all teaching assignments, divided by 17.4 (the average number of WFCH per faculty statewide). The average number of WFCH varies by district.

FTES (*Full-Time Equivalent Students*). FTES is recommended as the workload measure for funding three of the five program categories: instruction, instructional services and libraries, and institutional support. FTES is calculated by summing the number of weekly student contact hours generated by students enrolled in term-length courses at the time of the first census, adding in weekly student contact hours generated in positive attendance courses, and dividing by 525. Total statewide FTES is approximately 14 percent greater than total statewide ADA.

Gross Square Feet. Recommended as one of the workload measures for the maintenance and operations program category. Gross square feet is defined as the total number of square feet contained in a building, including walls and stairwells, etc.

Headcount Enrollment. Recommended as the workload measure for funding the student services program category. For purposes of this report, headcount enrollment was taken as the total enrollment at the time of the Fall Census. Ultimately, however, the Task Force would like to use total unduplicated annual enrollment as the workload measure for student services. Total headcount enrollment as used in this report is approximately 1.7 times greater than FTES statewide.

Hourly Faculty. Faculty who have teaching assignments and are paid on an hourly basis.

Non-Faculty Teaching Assignments. Teaching done by classified staff on an overload basis. These classified staff also have full-time non-teaching assignments.

Overload Faculty. Contract faculty who have teaching assignments over and above the normal teaching load for faculty in their district.

Program Categories. The five recommended funding divisions for the program-based model. The five categories are shown below with their corresponding activity classification codes from the CCFS-311 Fiscal Data Reporting Form.

- Instruction (Activity Codes 0100-5900)
- Instructional Services and Libraries (Activity Code 6100)
- Student Services (Activity Codes 6200-6400)
- Maintenance and Operations (Activity Code 6500)
- Institutional Support (Activity Codes 6000, 6600-6700)

Expenditures included in each category are salaries and benefits and operating expenses. The five categories together account for all current expenses for education, and exclude capital outlay, categorical funding, ancillary services, physical property and related acquisitions, long-term debt, and transfers to students.

WSCH (Weekly Student Contact Hours). WSCH is calculated by summing the number of hours students are expected to be in class during the week for term-length census courses and the number of hours students are actually in attendance for positive attendance courses. A full-time student is enrolled for 15 hours per week for 35 weeks, yielding a total of 525 contact

hours annually. (This number actually varies from district to district, but 525 is the number the state uses for apportionment purposes.)

APPENDIX 5

AB 3409 (CHAPTER 1465, 1987)

APPENDIX 5

Enabling Legislation

COMMUNITY COLLEGES—FINANCING, FACULTY AND ADMINISTRATOR QUALIFICATIONS, AND ACCOUNTABILITY—TASK FORCES, STUDIES, PLANS, AND REPORTS

Assembly Bill No. 3409

CHAPTER 1465

An act relating to community colleges, and making an appropriation therefor.

[Approved by Governor September 30, 1986. Filed with Secretary of State September 30, 1986.]

I am reducing the appropriation contained in Section 6 of Assembly Bill No. 3409 from \$325,000 to \$250,000.

While I support many of the recommendations of the Commission for the Review of the Master Plan and recognize the need to establish a community college funding mechanism which continues beyond the current June 30, 1987, sunset date, I do not believe \$325,000 in State General Fund monies is necessary for the two task forces.

With this reduction, I approve Assembly Bill No. 3409.

GEORGE DEUKMEJIAN, Governor

LEGISLATIVE COUNSEL'S DIGEST

AB 3409, Hayden. Community colleges.

Existing law provides for the financing of community colleges.

This bill would make certain legislative findings regarding the community college system, and specifically regarding the recommendation by the Commission for the Review of the Master Plan for Higher Education that the system of financing community colleges be restructured.

This bill would establish 2 short-term task forces, to be appointed by the Board of Governors of the California Community Colleges and convened and staffed by the office of the Chancellor of the California Community Colleges to provide the Governor and the Legislature with policy implementation proposals, as specified.

This bill would require that the chancellor convene a short-term task force on community college financing, as specified, for the purpose of developing recommendations regarding the enactment of a new state support allocation system for community colleges, as specified.

This bill would require the chancellor to submit the report of the task force to the Governor and Legislature, as specified, by May 1, 1987, and would require the task force to serve as liaison to the Joint Committee for the Review of the Master Plan for Higher Education, as specified.

This bill would require the chancellor to convene a task force on faculty and administrator qualifications, per review, hiring, and retention, as specified, to be composed of 11 members, as specified.

This bill would require the task force to submit its preliminary proposals to the Legislature by March 15, 1987, and to serve as liaison, as specified.

This bill would require the chancellor to conduct a study on developing and implementing a statewide program of education accountability, as specified.

This bill would require the chancellor to report regarding this study to the Governor and Legislature no later than June 1, 1987.

This bill would authorize the chancellor to contract for services to perform work associated with this bill, and would require that the chancellor submit an expenditure plan for approval to the Department of Finance, as specified.

This bill would appropriate \$525,000 to the chancellor in augmentation of the budget for the necessary expenses associated with the bill.

This bill would require the work of the task forces to be complete by September 30, 1987, and provide that the bill shall become inoperative on October 1, 1987.

Appropriation: yes.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares that:

(a) The Commission for the Review of the Master Plan for Higher Education has completed a Community College Reassessment Study, mandated by Chapter 1506 of the Statutes of 1984, and transmitted that reassessment study to the Legislature's Joint Committee for the Review of the Master Plan for Higher Education on April 2, 1986.

(b) The Joint Committee for the Review of the Master Plan for Higher Education has completed a series of public hearings concerning the findings and recommendations of the commission, and will complete an independent and comprehensive community college assessment report for the Legislature and the Governor.

(c) The California community colleges will play a pivotal role in the economic and social development of the state into the next century, but not without reform and resources.

(d) The continued health and development of the community colleges requires a maintenance of the highest caliber of qualified faculty, staff, and administrators which will be fulfilled through reform of the system of faculty and administrator qualifications, hiring, and retention procedures (at the state and local levels).

(e) The Commission for the Review of the Master Plan for Higher Education has recommended that the current system of financing community colleges be restructured to be more consistent with the status and role of these postsecondary education institutions.

(f) California's vast and diverse system of community colleges, which serves over 1,000,000 students a year, requires a strengthened, effective, and better supported Board of Governors of the California Community Colleges and office of the Chancellor of the California Community Colleges to provide statewide leadership and enhance local initiative.

(g) The broad policy reform guidelines recommended by the Commission for the Review of the Master Plan for Higher Education

and under consideration by the Governor and the Legislature require a significant amount of additional detail and technical substance before the guidelines may be enacted.

(h) Therefore, it is the intent of the Legislature to establish, through this act, two short-term task forces, to be appointed by the Board of Governors of the California Community Colleges, and convened and staffed by the office of the Chancellor of the California Community Colleges, to provide the Governor and the Legislature with detailed policy implementation proposals on the issues described above.

SEC. 2. (a) It is the intent of the Legislature to establish, by July 1, 1988, through statutory provisions and administrative rules and regulations, a new funding mechanism for determining the allocation of state general apportionments for community colleges which assures access to all Californians, promotes educational excellence, and is more reflective of a postsecondary educational system.

(b) To implement this funding method with the least disruption for community college programs, the Chancellor of the California Community Colleges shall convene a broad-based short-term task force on community college financing reform which shall include, but not be limited to, representatives of the Master Plan Review Commission, the Department of Finance, the Legislative Analyst, the Controller, the California Postsecondary Education Commission, local community college districts, and appropriate constituent groups. The chancellor shall invite participation by community college districts, but acceptance of the invitation shall be the prerogative of the local community college district.

(c) The task force shall develop specific recommendations which may include, but need not be limited to, the following:

(1) A new state support allocation mechanism, which is sensitive to and measures the full costs associated with the delivery of community college programs and services.

(2) Revenue adjustment components of the mechanism which would provide for adjustments on an incremental basis for increases or decreases in workload, for equalization, for inflation, and for other legally authorized purposes.

(3) A specific funding methodology which would differentiate among the major categories for operating community colleges, including, but not limited to, instruction, academic support, student services, institutional support, and plant operations and maintenance. The Legislature intends that, within the instruction category, the methodology be based upon mode and cost of instruction, as measured by full-time equivalent credits generated by the instructional activity, by subcategories that would include, but not necessarily be limited to, lecture, seminar, lecture-laboratory, high cost, low cost, independent study, and apprenticeship. The Legislature intends that in addition to these subcategories, adjustments be made for full-time equivalent courses taught by full-time and part-time faculty, and the differences in full-time equivalent courses in small and large districts in the context of economies of scale.

(4) Specific workload measures applicable for each category and subcategory.

(5) Options for providing budgetary incentives for measuring and improving student performance.

(6) The need for community college districts to rely on county superintendents of schools for fiscal services that may be provided through the chancellor's office.

(7) A specific means for preventing major revenue losses to districts during the initial year or years of the new formula.

(8) General provisions and guidelines of a funding mechanism which should be incorporated into statute and more detailed provisions which should be incorporated in rules and regulations of the board of governors.

(d) The chancellor shall submit a report of the task force on community college financing, including its recommendations, to the Governor and the Legislature not later than May 1, 1987, and the task force shall serve as liaison to the Joint Committee for the Review of the Master Plan for Higher Education as it considers and deliberates on comprehensive community college reform.

SEC. 3. (a) The Chancellor of the California Community Colleges shall convene a broad-based, short-term task force on faculty and administrator qualifications, peer review, hiring, and retention. This task force shall be composed of 11 members, a majority of whom are current faculty members of the community colleges, and are broadly representative of academic and vocational programs in the curriculum from both urban and rural districts, and proportionally representative of ethnic minority communities. It is the intent of the Legislature that the composition of the task force should include community college administrators.

(b) The charge of this task force shall be, but is not necessarily limited to, the following:

(1) Establishment of detailed proposals regarding the qualifications for hire as a member of the faculty and administration.

(2) Establishment of detailed proposals regarding the process of faculty and administrator hiring, evaluation and retention which are consistent with the guidelines proposed in the final community college assessment report and recommendations of the Joint Committee for the Review of the Master Plan for Higher Education.

(3) Development of specific recommendations regarding different levels of appropriate qualification for different vocational and academic programs.

(4) Development of proposals regarding the transition between systems of faculty and administrative qualifications.

(c) The task force shall submit preliminary proposals and recommendations to the Legislature by March 15, 1987, and serve as liaison to the Joint Committee for Review of the Master Plan for Higher Education as it considers and deliberates on comprehensive community college reform.

SEC. 4. (a) The Legislature finds and declares that there is a pressing need to:

(1) Provide to parents and potential students adequate information necessary to evaluate and make informed decisions about enrollment in a community college.

(2) Increase the public's awareness of and confidence in educational programs offered by, and the fiscal stability of, community colleges.

(3) Offer community college trustees, administrators, faculty, and students an authoritative and reasonable basis for measuring their performance from year-to-year and against their community college counterparts.

(4) Accomplish these goals through the annual publication of a detailed accountability report on the educational accomplishments and fiscal conditions of all community colleges in California.

(b) The Chancellor of the California Community Colleges shall conduct a study of the feasibility of developing and implementing a statewide program of educational accountability based on at least the following principles:

(1) Standards of academic rigor for all students, regardless of their backgrounds or programs, which direct them to higher levels of accomplishment.

(2) Performance reporting of each college, as measured by the accomplishments of its students, which encourage all districts toward higher levels of success.

(3) Recognizing and building on the exemplary performance of individual students, colleges, and districts which best allows community colleges to offer the education required for all California citizens.

(c) This study shall at least examine the feasibility of collecting, evaluating, and reporting on educational quality indicator and student outcome evaluation criteria such as:

(1) Articulation agreements with high schools.

(2) Articulation agreements with other colleges and universities.

(3) Transfer rates to other academic or vocational institutions, by program, ethnicity, and gender.

(4) Vocational education placement rates in occupations for which students received training.

(5) Attrition and retention rates by program, ethnicity, and gender.

(6) Standardized test scores of entering and exiting students, where available.

(7) Program accreditation, where applicable

(8) Affirmative action targets and ratios.

(9) Part-time and full-time faculty ratios.

(10) Student satisfaction as measured through periodic student attitude surveys.

(d) This study shall also include an examination of the feasibility of collecting, evaluating, and reporting at least the following information about the fiscal condition of each community college district:

(1) Total revenues, from all sources, including state, local, and student fee support, property, investments and other assets.

- (2) The extent to which surpluses or deficits exist.
- (3) Total expenditures, by major budget item.
- (4) Steps taken in each district by local governing boards, district management or the state chancellor to ensure fiscal stability.
- (e) The chancellor shall submit this report to the Governor and the Legislature not later than June 1, 1987.

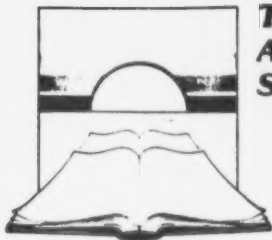
SEC. 5. The Chancellor of the California Community Colleges shall have the authority to contract for services and hire staff appropriate to perform the work associated with this act. The chancellor shall submit a plan to the Department of Finance for the expenditure of these funds which is consistent with the intention and direction of this act. The Department of Finance shall review and approve the chancellor's plan to ensure that it is reasonably consistent with this act.

SEC. 6. The sum of five hundred twenty-five thousand dollars (\$525,000) is hereby appropriated from the General Fund in augmentation of Item 6870-001-001 of Section 2.00 of the Budget Act of 1986 for the purposes of providing appropriate staff, contractual services and necessary expenses to the Chancellor of the California Community Colleges associated with complying with this act.

SEC. 7. As of September 30, 1987, the work of the task forces shall be complete.

SEC. 8. This act shall become inoperative October 1, 1987.

APPENDIX 6
MINORITY OPINIONS



**THE
ACADEMIC
SENATE**

For California Community Colleges

RECEIVED

JUN 22 1987

Ans'd.....

TO: AB 3409 Finance Task Force
FROM: Karen Sue Grosz
DATE: June 19, 1987

The Academic Senate Executive Committee has directed me to file this minority report with the AB 3409 Finance Task Force because of its concerns related to the task force final report.

I want first to recognize that the task force worked under tight time constraints and has accomplished much considering the enormity of the topic and the task the members confronted.

The Senate has three concerns with the substance of the report:

1. The absence of accountability as a "major task" to receive attention in developing a new funding mechanism (see page 11 of the June 8, 1987, draft) invites criticism, especially at a time when groups on all sides are requesting accountability. This is not to say that there is no accountability in the proposed mechanism, for it is woven into various elements of the report. But it would have been better had the issue been addressed as an obvious step in the development of the funding model, and the resulting funding model would gain more credibility if accountability had been clearly addressed.
2. The report lacks information concerning clear lines of responsibility for the operation of a new funding model. A funding mechanism that refuses to indicate what parties are responsible for the different elements of the working of that mechanism obviously falls far short of implementation.
3. The funding model not only lacks differentiation by mode of instruction, but also lacks a disincentive for districts that might be tempted to hire part-time faculty members as a cost-saving device. The Master Plan Commission has discussed the part-time issue at length, and it would seem to be a logical component of a funding model that generates resources on a categorical basis. But the suggested program-based model does not address the issue. Thus, the funding mechanism proposed by the task force, while it has several worthwhile elements, fails to remove the economic incentive to offer low quality programs at high quality costs.

The lack of consensus among the task force members on these issues suggests that the issues deserved fuller attention than time permitted. If the group had had the leisure to address these topics in depth, without the constant pressure of an imminent deadline, I am confident that the resulting decision would have been worthwhile, for the spirit of cooperation among the task force members was strong.

The task force accomplished a lot in a short time, covering more ground than most of its members would have believed possible at the start.

Sincerely,

A handwritten signature in cursive script that reads "Karen Sue Grosz".

Karen Sue Grosz
Academic Senate Secretary and President-Elect

Memorandum

Date : July 9, 1987

To : Dr. Joshua Smith, Chancellor
California Community Colleges
1107 9th Street, 4th Floor
Sacramento, CA 95814

RECEIVED
JUL 11 1987
California Community
Colleges

From : Department of Finance

Subject: Comments On "A Program-Based Funding Model for the California Community Colleges" (A Report by the AB 3409 Task Force on Community College Financing)

Our office has reviewed the final report and appreciates the opportunity to provide our comments. The task force had an extremely difficult job to do and a very limited time in which to do it. Generally speaking, we find merit in the task force's proposals to disaggregate costs into the five areas and to base allocations for instruction on a student:faculty ratio. However, as we indicated throughout the course of the task force's deliberations, we do have a number of concerns and dissenting views, as follows:

Fiscal Neutrality. The report reflects a basic confusion that has plagued the task force throughout its deliberations, i.e., a confusion between funding method and funding level. In Chapter I, it is stated that differential funding would be superior to the current system only if additional resources are to be given. In Chapter IV, the report states that the goal of differential funding is program improvement and equalization, and that no district should be made worse off. The Department of Finance (DOF) has always maintained that the purpose of differential funding is to allocate funds "better", i.e., in a manner more related to workload. For this reason, differential funding should be "fiscally neutral", i.e., differential funding in itself should not cause the provision of more resources. This view is similar to that of the 1984 study of differential funding (the "Gooder Report"), which adopted fiscal neutrality as a basic principle in the study of a new funding methodology. An allocation method does not drive the amount of resources to be allocated. The amount of resources is determined through the budget process. For this reason, DOF does not support any of the standards proposed by the task force which are not fiscally neutral.

Cost Basis. In Chapter II, a discussion of principles, it is stated that the system should be based on costs. This statement reflects another basic confusion of the task force regarding costs. Costs can be historical ("what is") or normative ("what should be"). A system based on historical costs will result in no increase in total resources. To base a system on normative costs, there must be substantial research to demonstrate what expenditures "should be", and even then the conclusion is a matter of opinion and consensus. The task force did not resolve this distinction. .

Use of External Standards. The DOF holds that a funding system for the community colleges should be based on the experience of the community colleges.

The first task should be to define workload and historical costs in the community colleges. It is only after these two things are determined that budget improvements can be addressed, because only then can the dollars requested be related to specific levels of improvement. Desired improvement levels can then be based on documented problems or comparisons to other institutions identified through research.

The task force adopted this approach to some extent in the instruction area, but in other areas, external standards (CSU or national library) were adopted arbitrarily. There was no definition of specific workload in the community colleges, no documentation of problems resulting from current workload, and no indication of the specific improvements the additional dollars would buy. Thus, the task force did not do the basic groundwork to define community college workload and historical costs, nor did it do any research to determine what other workload standards might be appropriate. This is the case for library services, maintenance and operations and institutional support, and to some extent for instruction.

Elimination of Second Census. DOF disagrees with the task force recommendation to base student enrollment count on the first census only. Enrollment in the community colleges drops about 15 percent between first and second census. The rationale for dropping the second census was that districts must staff up for the student loads present at the first census, and that UC and CSU do not conduct a second census. However, the task force did not develop any empirical evidence regarding attrition rates at UC or CSU, so there is no basis for determining that reliance on a single census is justified in the community college workload over the duration of the term. Furthermore, elimination of the second census removes an incentive for the districts to make efforts to retain student over the course of the term.

Specific Standards. DOF does not support the following proposed standards, which are external and arbitrary, and are not fiscally neutral.

o Instruction.

- oo DOF does not support the proposed student:faculty ratio for credit instruction of 25:1, which represents a 20 percent improvement. The rationale for this improvement is that it approximates the CSU lower division ratio. DOF does not consider this rationale to be sufficient justification. There are considerable differences between the curriculum at CSU and the community colleges. No research was done to account for curriculum differences between CSU and community colleges; there were no comparisons to other community college systems; and there was no documentation of specific problems.

- oo DOF does not support the proposed 75 percent level of contract faculty for credit instruction as a component of funding. First, this number is arbitrary and no basis for it has been presented. Second, the current percentage of part-time instructors and their salary levels are the result of choices made by local districts in the management of their operations. There is nothing in the current funding mechanism or other State law to prevent districts from decreasing the percentage of part-time instructors and paying them more, if districts choose to do so. However, the State should not be expected to pay for districts to alter their discretionary policies. (It should be noted that community colleges in California are similar to other states in their treatment of part-time faculty.)
- o Libraries. Virtually no information or documentation was provided about these standards when they were presented to the task force.
- o Maintenance and Operations.
- o Institutional Support.

Expenditure Controls and Incentives. DOF does not support the recommendation that the State provide an incentive for districts to increase their use of contract faculty. Districts developed the current levels of part-time faculty on their own, and the State should not provide additional resources for them to change their policies.

Implementation. DOF has several concerns in Section IV, Implementation.

- o Percentage of Standards. DOF disagrees with the recommendations that standards be adopted and that the percent of standard to be funded be negotiated in the budget process. This is a negative approach in which the focus will always be on the distance from the "standard". DOF supports an approach that is based on specific accomplishments, not shortcomings.
- o Program Implement/Equalization. The report does not address DOF's basic concerns regarding the need for equalization in a voluntary education system and the degree of equalization to be achieved.
- o COLAs. While DOF does not disagree with the idea of two statutory COLA factors, one for employee compensation and the other for operating expenses, DOF disagrees with the two factors proposed. The COLA factor proposed for operating expenses, i.e., the implicit price deflator for State and local government services, is heavily affected by personnel costs. DOF questions whether there might be a better index for operating expenses which is more reflective of those costs. The COLA factor proposed for personal services, i.e., the California Personal Income Index, is heavily affected by population change, and is thus poorly related to inflation. DOF suggests that other alternatives be considered, such as an inflation-related index, or an approach similar to that for UC and CSU, in which faculty salary increases are based on salaries at comparison institutions.

- o Hold Harmless. DOF disagrees with the recommendation that districts which are operating above the fully funded standards not only continue to receive revenues in excess of the standards, but that they receive growth and COLA as well. DOF believes that these districts should be brought to the standard prior to receiving any additional revenues.
- o Growth and Decline. DOF disagrees with the recommendation to phase out funds related to enrollment declines over a three-year period instead of the current one-year period. The three-year phase-out was initially proposed by the Administration for 1985-86 and supported for 1986-87 as a means of assisting districts during a fiscal crisis caused by an unprecedented four-year period of ADA declines. There is no need to make this measure permanent. Furthermore, such phase-outs should not be necessary under differential funding, since differential funding should be more related to workload than the current system. DOF notes that neither UC or CSU has such a phase-out protection; rather, funding associated with enrollment declines in UC and CSU is eliminated in the year of the decline if over 2 percent, and it is fully eliminated the following year. DOF supports that same process in the community colleges.

Thank you for the opportunity to express our comments as a minority report to the final task force report.

Judith B. Day
Judith B. Day
Budget Analyst
Education Systems Unit
(916) 323-9328

A DISSENTING FACULTY OPINION

Dr. Michael E. Brailoff
Professor of Management & Behavioral Sciences
College of Marin
CCC/CFT

The California Federation of Teachers placed me on the AB 3409 Task Force on community college finance because of my advanced training in public sector finance and due to my commitment to the principles of efficiency, equity and honesty in the operation of the public's community colleges. For the most part my colleagues on the Task Force, faculty and management alike, have performed their roles with above average objectivity and intelligence. I assumed that we would all be committed to providing a technically competent, ethically acceptable and fiscally responsible model for future community college finance. In almost all areas our common efforts have indeed yielded a product which meets these criteria. A brief review of the important contributions of the members of the Task Force must include the following:

- development of eight principles for future community college finance
- selection of five program funding categories
- development of workload measures for three of the five program funding categories and initial work on the two remaining funding categories
- significant improvement over earlier funding models in the definition and implementation of equalization
- significant improvement over earlier funding models in the definition and implementation of funding stability

- significant improvement over earlier funding models in the definition and implementation of funding adequacy for community colleges

All of these recommendations are commendable and I am pleased to have had an opportunity to participate in the committee's deliberations. Unfortunately, our collective work product is not without certain technical and ethical problems. The committee's report and recommendations contain two provisions which are misguided, and the report fails to forthrightly confront two issues which are essential to a comprehensive funding and economic accountability model for community colleges. These commissions and omissions seriously diminish the value of our collective efforts. Consequently, I have provided this minority report in the hope that these errors might yet be corrected.

First let me mention the opposition to the committee's efforts waged by the Department of Finance and the Legislative Analyst's representatives. Both of these individuals entered the committee process with announced positions against any increased funding for community colleges and with no discernible intent other than preventing any change in the funding formula for community colleges. The participation of these functionaries was in marked contrast to the productive leadership provided by Jane Wellman from the California Postsecondary Education Commission.

Areas of disagreement between committee members and myself centered on revenue allocations for the following: funding of part-time faculty, enrollment growth and building leases. In addition, management representatives and I continually disagreed about district economic accountability requirements, and also over the role of the legislature (versus the Board of Governors) in operating California's community colleges.

PART-TIME FACULTY REMUNERATION: A PREDICTABLE CONFLICT

I proposed, on behalf of the CFT, that the revenues allocated for part-time faculty follow the California State University model (i.e., that part-time faculty be funded at 100 percent pro rata). This change in resource allocation and subsequent remuneration would move part-time faculty from their current position of receiving less than half the pro rata compensation of full-time faculty to a position of fair and equitable compensation.

Managers, along with Finance's representative, resisted this idea despite faculty agreement that increased workloads would have to occur in many districts if part-time faculty pay rates were increased. One manager, speaking perhaps for all managers, stated he did not want part-timers providing more services to students even if the state would fund it. Finance's representative, also arguing against equitable part-time faculty compensation, indicated that the state, given the fact that people were willing to work for so little, should not pay higher wages for part-time college level educational services.

I must comment on the policy norms advocated by these nominal leaders of the public's governmental and community college systems. First, it should be noted that approximately thirty-nine percent of the credit curriculum in community colleges is taught by part-time faculty (1984-85 data). These faculty, with rare exception, receive poverty level wages and no fringe benefits. Community college managers, and the Department of Finance, apparently view community college students as so undeserving of competent educational services that an impoverished faculty is deemed sufficient for almost forty percent of their educational needs.

In addition, it must be observed that part-time faculty in many if not all districts are increasingly likely to be female and or non-white. Community college resource allocations and emoluments for part-time faculty institutionalize economic discrimination against female and minority employees. This reality is of course disguised linguistically, we describe these essential colleagues as nameless, faceless, sexless, and raceless "part-timers." The label implies a less than professional function and is used to legitimate economic discrimination. Community colleges, which artfully claim to be a vehicle of educational and economic opportunity for women and minorities, practice economic discrimination against these same people.

REVISED FUNDING PRINCIPLE. As a colleague I appreciate the educational competencies required for effective community college instruction; I understand that these abilities have market value outside of education. Because competent educators are drawn away from part-time community college instruction due to its poverty level emoluments, I support a minimum of 80 percent pro rata funding for our "adjunct faculty."

STATE REIMBURSEMENT FOR ENROLLMENT GROWTH & BUILDING LEASES

Task Force members, again lead by management representatives, collectively advocated two new "economic principles." First, the state should pay community colleges for one hundred percent of enrollment growth in the year immediately following that enrollment growth. This is questionable because growth does not produce equivalent related costs immediately; this so called "economic principle" lacks any semblance of economic credibility. Empirically based economic principles indicate that growth produces marginal cost increases, and enrollment decline produces marginal cost decreases.

Furthermore, the one "production factor" that is likely to increase in a rather direct relationship with increased enrollments, i.e., part-time faculty labor, managers wish to pay at less than half the level of permanent faculty. Therefore, growth related cost increases would amount to a fraction of a district's growth related revenues, not 100 percent of these revenues. One wonders where (or on whom) the managers wish to expend the extra growth dollars.

Second, managers also advocated that districts which lease buildings should be paid maintenance costs for these rental spaces regardless of the actual maintenance costs incurred by the districts involved. In fact, the Task Force report contains a recommendation favoring a formula for leased space maintenance and rental costs which would produce state payments unrelated to actual costs born by districts.

REVISED FUNDING PRINCIPLE. I support a three-year-rolling-average funding pattern for both enrollment growth and decline.

REVISED FUNDING PRINCIPLE. I support a lease maintenance formula which pays districts for actual verifiable costs born by districts.

DISTRICT ECONOMIC ACCOUNTABILITY, A SERIOUS OMISSION

Faculty Task Force members advocated greater economic accountability by local districts to the state's regulatory agencies (the Chancellor's office and Department of Finance). In addition, I have argued that increased regulatory power within the Chancellor's office must be preceded by significantly increased competency within that regulatory agency.

My understanding of the Chancellory's abilities draws upon multiple experiences with its less than admirable performance-- including a multi-million dollar lawsuit against the Chancellor's office for its refusal to properly implement a legislative policy regarding local district use of the state's revenues for faculty salaries. My extensive experience with local districts and the Chancellor's office has engendered my belief in laws mandating independent annual scrutiny of district expenditures and similar examination of the Chancellory's implementation of state policy.

In contrast, management representatives consistently opposed increased local district economic accountability to the Chancellory, especially in its more rigorous and verifiable forms, and management representatives acted with indifference to the need for increased competency within the Chancellor's office. Paradoxically, the Department of Finance made no contribution in this area. Due to the greater relative number of managers placed on the Task Force, the report makes no specific recommendations re: district economic accountability.

REVISED FUNDING PRINCIPLE. I recommend that revised reporting forms, accounting methods, and regulatory guidelines be established before the implementation of the proposed program based funding model. If the legislature wishes to be assured that the state's revenues are expended according to policy dictates, with local discretion exercised in a responsible manner, only statutory accountability provisions will begin to assure this outcome.

In addition, to further the goal of policy conformity I believe that field panels composed of managers, Chancellor's office staff and faculty representatives should be required in any economic investigatory activity performed by the Chancellor's office. There is a marked tendency for staff in the Chancellor's office and managers in the field to protect one another in moments of crisis. Faculty representatives will bring greater autonomy and objectivity to these processes. The relationship between the Chancellor's office and district managers results in policy drift, policy distortion and finally, policy subversion.

THE ROLE OF THE LEGISLATURE & THE BOARD OF GOVERNORS IN FINANCE: ANOTHER SERIOUS OMISSION

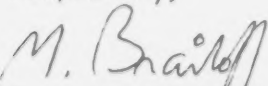
Community college districts do not provide their own economic resources; the legislature funds these colleges in conjunction with the Governor. But the Governor appoints the members of the community college Board of Governors who, once appointed, serve without any effective means for public influence over their decisions. Inevitably, the legislature must become involved in the public's concerns over their community colleges. This is proper for community colleges are a product of joint local and state governmental authority. The appointed Board of Governors cannot function as a replacement for legislative policy formulation and legislative fiscal resource planning. Only the legislature can perform these roles.

It follows, therefore, that community college funding levels, funding categories, workload measures, and policy incentives must be under the control of the legislature and not an appointed body. The role of the Board of Governors is to assure the legislature and the Governor that the community college system is meeting its objectives and functioning within its legislated policy constraints. In performing their role the Board of Governors must assure the government that the Chancellor's office has performed its regulatory and policy advisory role competently.

REVISED POLICY PROPOSAL. I recommend that the legislature retain statutory control over community college funding categories, workload measures, and resource allocation levels.

In almost all areas the Task Force's efforts have yielded a product which meets sound policy criteria. Most of the Task Force's recommendations are commendable and I am pleased to have had an opportunity to participate in the committee's deliberations. The policy errors that I have noted are easily corrected. Consequently, I recommend that the Task Force report, as modified here, be adopted into legislation.

Respectfully,



Dr. Michael E. Brailoff

ERIC Clearinghouse for
Junior Colleges

OCT 16 1987